Manitoba
March 31, 2002

Integrity Inde

OFFICE OF THE
AUDITOR GENERAL

Openness Teamwork Professional Excellence

Operations of the Office

Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

government accountability information;

compliance with legislative authorities; and

the operational performance of government.

Values

IN INTERPERSONAL RELATIONSHIPS

Respect	***Honesty***
Integrity	***Openness***

IN ACHIEVING OUR VISION AND MISSION

Teamwork

Independence

Balanced Perspectives

Professional Excellence

102-07496/

Office of the Auditor General
500 - 330 Portage Avenue
Winnipeg, Manitoba, Canada R3C 3L6

July 2002

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith our Annual Report on the Operations of the Office of the Auditor General for the year ended March 31, 2002 to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

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This Report

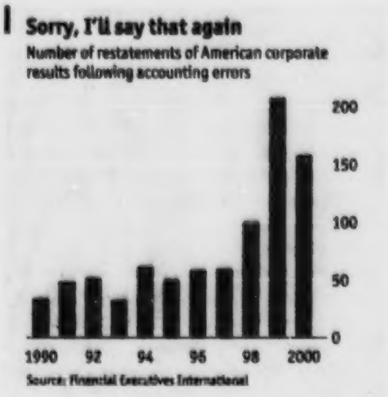
This Report describes the functions and operations of the Office of the Auditor General and presents the audited financial statements for the Office for the year ended March 31, 2002. It is not a report on the results of the audits conducted, as this information is tabled in the Legislature separately.

Reflections of the Auditor General

The success of our Office is dependent on many factors, chief among them are:

- The independence of the Office of the Auditor General;
- The willingness of citizens to bring forward issues of concern;
- The opportunity for open communication with all members of the Legislative Assembly;
- The opportunity to meet and discuss issues in the forum of an active Public Accounts Standing Committee of the Legislature;
- The full cooperation and assistance from Deputy Ministers, their staff, representatives of crown corporations and government agencies;
- Our ability to attract and retain the skilled and dedicated staff that we currently have;
- The provision of sufficient resources by the Legislative Assembly Management Commission to enable us to meet the volume of audit work required and to report our findings to the Legislative Assembly on a timely basis;
- Open, cooperative, and transparent communication with external auditors appointed to audit financial statements of government organizations;
- Strong partnership relationships with our Agency auditors;
- The exchange of knowledge and expertise with our counterparts in the other provincial legislative audit offices and the Office of the Auditor General of Canada; and
- The input and exchange we have with the Canadian Institute of Chartered Accountants and the Public Sector Accounting Board in the development and refinement of accounting and auditing standards.

I would like to focus in on the first factor I identified as critical to our success (i.e., the independence of the Office of the Auditor General). This aspect has never been more important to highlight than now, given the increasing frequency with which financial statements are having to be restated in the U.S., Canada and other countries; Enron and World.com are two of the most obvious. This has understandably undermined the confidence that people have in audited financial statements. It is the independence of legislative auditors that enables the public to have confidence in the assurance that legislative auditors give in relation to financial information prepared by government. The audit function is a critical link in the chain of public accountability – the independent legislative auditor provides credibility to financial information provided, as well as other non-financial information.


Sorry, I'll say that again

Number of restatements of American corporate results following accounting errors

Source: Financial Executives International

Source: The Economist (July 6th-12th, 2002)

The fact that the independence of the Auditor General is enshrined in legislation further instills public confidence in the role of the legislative auditor. Moreover, this independence is demonstrated in terms of the control that legislative auditors are given over their budget and the selection of audits. As a result, legislative auditors are free of bias and conflict of interest, without interference from Government. This independence culminates in the reporting relationship that the Auditor General has with the Legislative Assembly. All the reports of the legislative auditor are destined for members of the Legislative Assembly and the Legislative Auditor is ultimately answerable and accountable to the Assembly. Thus the existence of an independent legislative auditor is vital, and its importance in instilling confidence and credibility with respect to public accounts should not be underestimated.

Jon W. Singleton, CA•CISA

Significant Milestones and Accomplishments for 2001/02

- At the request of the Provincial Auditor, the Government agreed to a complete redraft of the existing Provincial Auditor's Act. On May 1, 2002 The Auditor General Act was proclaimed. The Act furthers the principles of independence and accountability of the Office of the Auditor General. Details on the amendments can be found on pages 21 and 22 of this report.

- Our Office contributed to the Government's decisions to enhance Public Accounts Reporting. For 2001 the following improvements were adopted, as per our recommendations:

    - Volume 1 of the Public Accounts was issued in the form of an Annual Report including not only financial statements, but also discussion and analysis. It also included financial and economic indicators for the Government's central operations, as well as for the entire Government Reporting Entity.

    - In Volume 1 of the Public Accounts, the Government clearly designated the March 31, 2001 Operating Fund and Special Funds Financial Statements as special purpose. This reinforced that the Summary Financial Statements are the primary financial statements of the Government.

    - Land was included in tangible capital assets for the 2001 fiscal year in accordance with the Public Sector Accounting Board (PSAB) recommendations.

    - Certain health care facilities and the University of Manitoba applied the new PSAB and CICA accounting recommendations for employee future benefits.

- On March 20, 2002 the Deputy Minister of Manitoba Health selected our Office to conduct the audit of health indicators reports pursuant to a September 11, 2000 First Ministers Communiqué.

- In October 2001, our Office released a report entitled, *Investigation of an Adult Learning Centre ("The Program") in Morris-Macdonald School Division #19*. Subsequent to the release of this report, the Government drafted and tabled legislation for Adult Learning Centres in Manitoba and incorporated the majority of our recommendations into this legislation.

- Following the release of our report entitled, *A Review of Policy Development Capacity Within Government Departments*, the Auditor General was asked to deliver four presentations on the report's findings including a presentation to the Institute of Public Administration of Canada, and the Canadian Evaluation Society.

- In early 2002, the Province of Manitoba was informed of a significant error with respect to the omission of the provincial portion of mutual fund capital gains refunds from the Federal/ Provincial Tax Sharing Statements of the Canada Customs and Revenue Agency (CCRA). The Office of the Auditor General of Canada was requested by the Federal Department of Finance to verify the error and perform other related work. Our Office participated in a working group comprising members of the Canadian Council of Legislative Auditors (CCOLA) that was established to review the Auditor General of Canada's workplan, to provide input on issues arising during their work, and to assess the results of the work done. We provided updates to the Manitoba Department of Finance and Manitoba Federal/ Provincial Relations during early 2002, and issued a summary letter to the Deputy Minister of Finance of Manitoba in July of 2002.

- An independent survey of members of Manitoba's Legislative Assembly shows high levels of satisfaction with our Office:
  - 92% indicated that our reports to the Legislative Assembly (RTLs) are an important service; and
  - 92% felt that our RTLs deal with matters of significance for the Legislative Assembly.

- In following up on the status of the 25 recommendations made in two VFM audit reports issued in the autumn of 1997, we noted that all recommendations had been accepted by the two departments.
- We assessed the business controls over the enterprise resource planning software system (referred to in this report as SAP) used by government departments. Assessments of individual departments were prepared.

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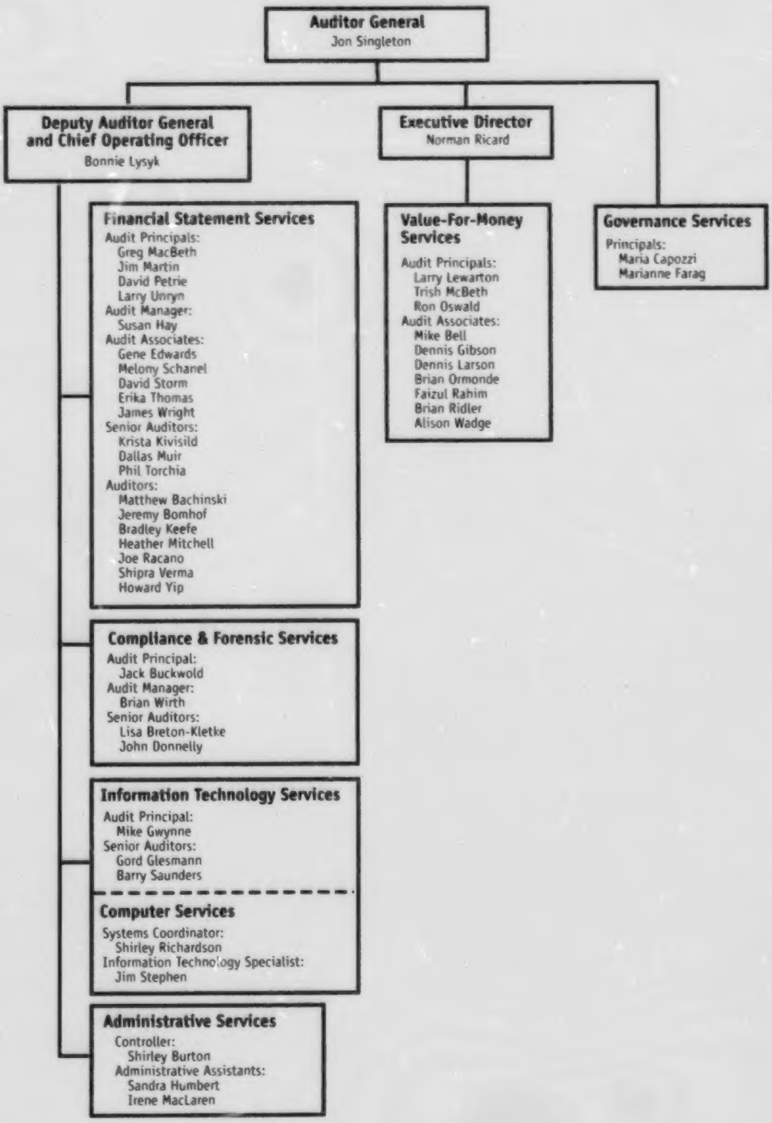
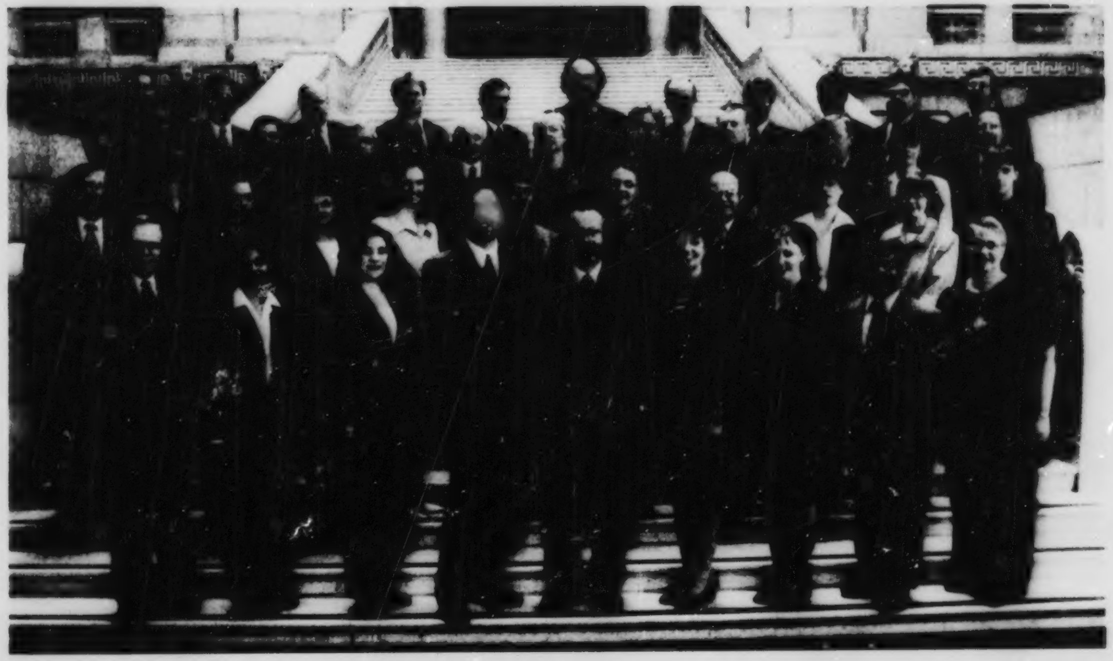
Organization Chart


Auditor General
Jon Singleton
Deputy Auditor General and Chief Operating Officer
Bonnie Lysyk
Executive Director
Norman Ricard
Financial Statement Services
Audit Principals:
Greg MacBeth
Jim Martin
David Petrie
Larry Unryn
Audit Manager:
Susan Hay
Audit Associates:
Gene Edwards
Melony Schanel
David Storm
Erika Thomas
James Wright
Senior Auditors:
Krista Kivisild
Dallas Muir
Phil Torchia
Auditors:
Matthew Bachinski
Jeremy Bomhof
Bradley Keefe
Heather Mitchell
Joe Racano
Shipra Verma
Howard Yip
Value-For-Money Services
Audit Principals:
Larry Lewarton
Trish McBeth
Ron Oswald
Audit Associates:
Mike Bell
Dennis Gibson
Dennis Larson
Brian Ormonde
Faizul Rahim
Brian Ridler
Alison Wadge
Governance Services
Principals:
Maria Capozzi
Marianne Farag
Compliance & Forensic Services
Audit Principal:
Jack Buckwold
Audit Manager:
Brian Wirth
Senior Auditors:
Lisa Breton-Kletke
John Donnelly
Information Technology Services
Audit Principal:
Mike Gwynne
Senior Auditors:
Gord Glesmann
Barry Saunders
Computer Services
Systems Coordinator:
Shirley Richardson
Information Technology Specialist:
Jim Stephen
Administrative Services
Controller:
Shirley Burton
Administrative Assistants:
Sandra Humbert
Irene MacLaren

Our Team



Left to right from Top Row: Joe Racano, David Storm, Jim Martin, Jeremy Bomhof, Larry Lewarton, Jim Stephen, Brian Ormonde, Mike Bell, Howard Yip, Dallas Muir, Dennis Larson.
Second Row: Bradley Keefe, Shirley Richardson, Phil Torchia, Brian Wirth, John Donnelly, Alison Wadge, Ron Oswald, Mike Gwynne, Barry Saunders, Trish McBeth, Brian Ridler.
Third Row: Larry Unryn, James Wright, Irene MacLaren, Melony Schanel, Jack Buckwold, Krista Kivisild, Gene Edwards, Erika Thomas, Susan Hay, Matthew Bachinski.
Front Row: David Petrie, Shipra Verma, Maria Capozzi, Norman Ricard, Jon Singleton, Bonnie Lysyk, Heather Mitchell, Faizul Rahim, Sandra Humbert
(Not Shown: Shirley Burton, Marianne Farag, Dennis Gibson, Gord Glesmann, Greg MacBeth)

Independence and Role

The Office of the Auditor General is an independent office of the Legislative Assembly. The Auditor General plays an important role on behalf of the citizens of Manitoba in the process by which the legislature holds the government of the day accountable for its actions.

In fulfilling that role, the Office has the responsibility, on behalf of the public, to bring to the attention of the legislature, and to officials of the Government, anything that we consider "should be brought to the Assembly's attention".

Legal Status

Pursuant to The Auditor General Act, the Auditor General serves as an Officer of the Legislative Assembly. The Act gives the Auditor General the responsibility, authority, and independence to audit and publicly report on all government organizations as well as to conduct audits of recipients of public monies. By law, our reports are provided to Members of the Legislative Assembly of Manitoba.

Finances and Resources

The Legislative Assembly Management Commission, an all-party Legislative Committee, reviews and approves our annual budget. The Office of the Auditor General's financial statements, relating to the year ending March 31, 2002, have been audited by a firm of Chartered Accountants and are presented in this report (see Financial Accountability Section).

Operating Principles

Independence

- We conduct our work in an objective and unbiased manner.

Balanced Perspective

- We put forth well considered and fair conclusions based on analysis of all opinions and where appropriate, reporting on strengths as well as weaknesses.

Teamwork

- We work together cooperatively and in a coordinated manner to achieve a common goal.

Accountability

- We are accountable for our individual contributions to the products and services provided by the Office.

Value-Added Work

- We provide the Legislative Assembly with value-added reports.

Professional Conduct

- We adhere to the Office values in carrying out our work.

Professional Excellence

- We maintain sound audit methodology and meet the professional standards and competency requirements of our Office.

Financial Stewardship

- We use taxpayers' money effectively and efficiently.

Code of Professional Conduct

Employees of the Office of the Auditor General conduct themselves as professionals in their approach to their work and take pride in their accomplishments. We encourage a positive and professional attitude including a commitment to the Office's operating principles. As well, all employees must respect the confidentiality of information acquired in the performance of their work.

In addition, our employees belong to professional associations governed by by-laws and codes of conduct that they are required to comply with in carrying out their work in order to maintain good standing in those associations.

To maintain their independence and objectivity, employees of the Office of the Auditor General are not permitted to take an active role in the affairs of any political party. In addition, all employees are required to take an Oath of Allegiance and sign an Oath of Office.

Services

The Auditor General is the auditor of the Public Accounts of the Government including the Summary Financial Statements and the Special Purpose Operating Fund and Special Funds Financial Statements. The Summary Financial Statements reflect a consolidation of the Special Purpose Operating Fund and Special Funds Financial Statement with the financial statements of all organizations comprising the Government Reporting Entity as published in Volume 4 of the Public Accounts.

Under the authority of The Auditor General Act, government organizations that are subject to audit include government departments, Crown organizations, government enterprises and recipients of public monies. The type of audits and reviews we undertake are as follows:

Attest Audits - attesting to the adequacy, fairness and appropriateness of reports prepared by management (e.g. financial statements).

Compliance with Authority Audits - assessing and commenting on the extent of compliance with government legislation, including regulations and other central government policies.

Investigations - examining financial or operational information relating to allegations of inappropriate situations or practices.

Value-for-Money Audits - assessing and commenting on the efficiency, economy and effectiveness with which government organizations use their resources to accomplish intended outcomes.

Governance Reviews - assessing and commenting on public sector reforms, as well as the board governance of various public sector and government funded entities.

Performance Reporting - assessing and commenting on business planning/strategic planning and performance measurement within government organizations, and the quality of accountability information submitted to the Legislative Assembly.

Special Audits - requested by the Lieutenant Governor in Council or the Minister of Finance, or by resolution of the Standing Committee on Public Accounts. The nature of this work will vary and includes the range of our audit services.

Joint Audits - conducting audits with a legislative auditor from another level of government in relation to any provincial funds that are spent under a joint initiative with another jurisdiction.

In addition to these specific services, we strive to:

- Encourage discussion and debate regarding public sector management and accountability issues;
- Assist the Public Accounts Committee;
- Develop professionals for Public Service; and
- Support, adhere and promote the accounting and assurance standards as recommended by the Canadian Institute of Chartered Accountants.

Through our work and reports we encourage public accountability and transparency. We also promote our firm belief that a special duty of care is owed to the citizens of Manitoba by those charged with managing public monies and those receiving public monies.

Clients

Our clients are the Members of the Legislative Assembly (MLAs), and through them, the citizens of Manitoba.

Those who additionally benefit from our services include Deputy Ministers, Departmental Managers, and representatives of Crown Corporations and government agencies.

Clients' Needs

Our clients expect:

- Non-partisan advice and assurance;
- Accurate and timely reporting of audit/review findings;
- Effective and broad-based communication of audit/review findings;
- Reports which provide practical and fair recommendations; and
- Audits and reviews that focus on significant public sector issues.

Key Risks

Risk Management is the process of making and carrying out decisions that will minimize the effects of possible adverse events(risks) upon the goals and objectives of an entity.

Our Office utilizes sound risk management practices to ensure that we meet our objectives and achieve our goals. We have established control systems to reduce the likelihood that risks would adversely affect our ability to achieve our goals and objectives, while fulfilling our responsibilities under The Auditor General Act.

The following are our key risks and how we are poised to mitigate those risks:

Loss of Independence

- We consider a loss or a perceived loss of our independence to be a risk. We believe that we can address this risk by ensuring that we operate in accordance with our Act without fear of reprisal. The Act provides us with our examination parameters. As an Office we carefully guard our independence.

Loss of Credibility

- Stakeholders trust and value our assurance and advice. We are cognizant that we must gain and keep that trust and ensure that our work and our reports are valued. We strive to do this by ensuring the quality and accuracy of our work and communications. Quality Assurance practices are established in our Office and we continue to seek ways to strengthen these practices.

Lack of Relevance of Work

- In order for our work to be beneficial to our clients, we must ensure that our reports are meaningful to them. We do this by ensuring our reports deal with topics of interest to legislators and citizens of Manitoba; are written using clear, understandable language; and provide sufficient background information to help the reader understand the significance of reported issues. As well, we maintain an awareness of the issues important to legislators and the citizens of Manitoba.

Lack of Resources and Competencies

- The quality of our assurance and advice is dependent on the knowledge, skills and ability of our employees. We offer training and professional development opportunities to ensure that they have the competencies to perform their responsibilities in an effective and efficient manner. When necessary, we supplement our in-house skills with external consultants that bring specialist knowledge required for certain assignments.
- We need the support of legislators to obtain the required resources. We annually present a

financial plan to the Legislative Assembly Management Commission to request needed resources. If we do not have sufficient resources to pay for the cost of our work force, we would have to reduce the number of employees. If this happens we would communicate to the Legislative Assembly Management Commission or the Legislative Assembly that we would be unable to do all of the work requested of us.

Reporting Process

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout an audit or review. Before beginning the work, our staff meet with them to discuss the objectives, criteria, and focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report.

Final reports of the Office are submitted to the Speaker for tabling with the Legislative Assembly. Each report is automatically referred to the Standing Committee on Public Accounts.

The Auditor General Act

The Auditor General Act

Effective May 1, 2002 a new Act was proclaimed governing the activities of this Office. The new statute is called The Auditor General Act. The Auditor General Act replaces The Provincial Auditor's Act which was enacted in 1969.

The Auditor General Act modernizes the legislation governing the work of legislative auditors. The new legislation reflects current trends and practises in legislative auditing and clarifies certain provisions that needed to be expressed in clearer terms.

The new legislation is intended to achieve the following objectives:

- Strengthening accountability and independence of the Office of the Auditor General;
- Clarifying the mandate of the Auditor General;
- Strengthening the Auditor General's access to information; and
- Ensuring confidentiality of the Auditor General's work.

A comparison between previous legislation and the new Act is presented in the accompanying table.

The full Auditor General Act is reproduced in Appendix D.

Highlights from The Auditor General Act Proclaimed May 1, 2002

Subject	*Previous Legislation*	*The Auditor General Act*
Appointment of the Provincial Auditor	• The Provincial Auditor is appointed by the Lieutenant Governor in Council (L.G. in C.).	• The Standing Committee of the Legislative Assembly on Privileges and Elections would recommend to the Lieutenant Governor in Council (L.G. in C.) the appointment of the Auditor General.
Speaker to Table Audit Reports	• The Provincial Auditor's reports are submitted to the Minister of Finance and are forwarded to the L.G. in C. who lays them before the Assembly.	• All reports from the Auditor General will be submitted to the Speaker of the Legislative Assembly for distribution to all members.
Referral of Audit Reports to Public Accounts Committee	• No provision regarding the referral of reports to the Public Accounts Committee.	• The Auditor General's reports that are tabled in the Legislative Assembly shall be referred to the Standing Committee on Public Accounts.
Request for Special Audits	• Only the L.G. in C. or the Minister of Finance can request special audits.	• The L.G. in C., the Minister of Finance or the Public Accounts Committee of the Legislature may request the Auditor General to undertake a special audit.
Audit of Provincial Auditor's Office	• Executive Council (Cabinet) appoints the auditor who examines and audits the Provincial Auditor's Office.	• The Legislative Assembly Management Commission shall appoint an auditor to examine and audit the Auditor General's Office.
Ineligibility to Hold Public Office	• No provision in the previous Act.	• The Auditor General and Deputy Auditor General may not be elected as members of the Legislative Assembly, nor hold any other public office or engage in any partisan political activity.
Annual Report on Operations of the Office	• No existing provision. However, the Provincial Auditor's Office has, as a matter of practice, submitted to the Assembly an annual operations report.	• Before August 1st in each year, the Auditor General must submit to the Speaker of the Legislature an annual report on the operations of the Office.
Mandate of Provincial Auditor	• The wording of the previous provisions is ambiguous.	• The Auditor General's duties are clarified to include reporting on compliance, economy and efficiency with which public resources are being utilized. • As well, the legislation would enable the Auditor General to report on the quality of accountability information submitted to the Assembly.
Auditing Recipients of Public Money	• The previous definition of recipient of public money is limited to those who receive grants or an advance or those who borrow or receive a guarantee from the Crown.	• The definition of recipient of public money is expanded to include those who receive tax credits on the transfer of property from government.
Authority of Provincial Auditor in Relation to External Auditors	• No provision in the previous Act.	• Where crown corporations or government agencies use external auditors for financial statement audits, the Auditor General is empowered to: review the scope of an external financial statement audit, to require changes to be made to the scope or to require additional examinations.
Joint Audits	• No provision in the previous Act.	• The Auditor General would be authorized to undertake joint audits with a legislative auditor from another level of government in relation to any provincial funds that are spent under a joint initiative with any jurisdiction.

Subject	*Previous Legislation*	*The Auditor General Act*
Access to Information	• The provisions seem to limit the Provincial Auditor to only being able to obtain information from a government agency. The Provincial Auditor has the power to examine any person under oath, however, it is not clear if this examination extends to the ability to request that certain records be supplied to the Auditor.	• The legislation clarifies the Auditor General's right to access information from any person, organization or other body that the Auditor General believes on reasonable grounds may have the relevant information.
Penalty for Recipients Obstructing Auditors	• No provision in the previous Act.	• A recipient of public money who obstructs or provides false or misleading information to the Office of the Auditor General is liable on summary conviction to a fine of not more than $10,000.
Audit Working Papers Confidential	• No provision in the previous Act.	• Audit working papers shall not be laid before the Legislative Assembly or any of its committees.
Secrecy Except in Certain Circumstances	• No provision in the previous Act.	• Information obtained during the course of an audit shall remain confidential subject to: - the Auditor General's right to report on any matter; - a legal proceeding; or - a requirement to release information in connection with the proper administration of this Act.

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Audit of the Public Accounts

January 2002

Our 2001 Public Accounts Report to the Legislative Assembly noted the significant changes in financial reporting made by the Government of Manitoba pursuant to our earlier recommendations:

- The Government clearly designated the March 31, 2001 Operating Fund and Special Funds Financial Statements as special purpose. This reinforced the Summary Financial Statements as the primary financial statements of the Government. The Financial Statements of the Operating Fund should only be used for purposes intended: to reflect the Government's compliance with the Balanced Budget, Debt Repayment and Taxpayer Accountability Act; and to report on the stewardship of central government operations.
- The Government issued the Public Accounts as an Annual Report with commentary by the Minister of Finance regarding the fiscal year. The Annual Report contained discussions on financial indicators and variance explanations for both the Summary Financial Statements and the Financial Statements of the Operating Fund and Special Funds. This was a positive step in enhancing the clarity of Public Accounts because the reader was provided with information on key events and on the performance of the Government for the fiscal year.
- Changes in accounting policies implemented in 2000/01 were as follows:
    - Most land was included in tangible capital assets for the 2001 fiscal year in accordance with PSAB;
    - Certain health care facilities and the University of Manitoba applied new accounting recommendations for employee future benefits in accordance with PSAB; and
    - Prior to the 2000/01 fiscal year, individual health care facilities issued long-term debt in their own name to finance major capital

acquisitions. In 2000/01, the Province began a program to finance such debt directly, taking advantage of its superior borrowing power and lower rates, and thereby lowering the cost of health related borrowings for Manitoba. This debt is included as part of the Province's general purpose borrowings. The related asset for non-devolved health care facilities is recorded as a deferred charge and amortized over the same period as the term of the debt issue.

Other significant changes made by the Government included:

- The Government designated certain funds for the eventual retirement of the outstanding pension liability, including an amount equal to the pension contributions of all civil servants and teachers hired on or after April 1, 2000.
- The Government changed its methodology of amortizing unrealized foreign currency fluctuations, debt discounts and deferred income. The new methodology calculates amortization based on the number of months to maturity from inception to the date of maturity.

Furthermore, in our Auditor's Report we reiterated the following recommendations to improve the financial reporting of the Public Accounts:

- That the Government make the Summary Budget its primary tool for explaining its financial plans to the citizens of Manitoba. This would be consistent with the decision recently taken by Government to make the Summary Financial Statements its primary financial reporting tool. In essence, this would mean framing the annual budget documents around the Summary Budget, with the Operating Fund budget being shown in a subsidiary context to demonstrate how the government plans to comply with the Balanced Budget legislation and to highlight those expenditures that will require legislative approval. Similarly, the quarterly reports of the Province, a financial reporting tool, should be modified to reflect actual expenditures on the same basis as the Summary Budget.
- That the Government record infrastructure such as highways, bridges and land acquired for public

use, as tangible capital assets as soon as practical.

- That the Government change its accounting policies to record changes in accounting policies retroactively and restate prior year balances so that financial results are presented on a comparable basis between years.

In addition, the Government made the following commitments:

- The Government is committed to improvements in transparency and accountability.
- The Government will review the Summary Budget format and consider whether or not a different presentation, with more detail, might be more helpful and informative to the reader.

Review of SAP Controls

The Government of Manitoba implemented SAP R/3 (SAP) as an enterprise solution for its Accounting, Logistics and Human Resource processes effective April 1, 1999. We reviewed the controls over SAP in the initial implementation of SAP version 3.1h and issued a report on the results of our review. A summary of this report was included in the Public Accounts Report to the Legislature for the fiscal year ended March 31, 1999.

The Government upgraded from SAP version 3.1h to version 4.6b in November 2000. We reviewed the upgrade to gain reasonable assurance that the upgrade was performed in a controlled fashion and changes to the Province's control framework resulting from the upgrade were identified, reviewed and assessed. We included a summary of our review in the January 2002 Report to the Legislative Assembly.

We concluded that that the controls over SAP in the Government and the upgrade procedures were generally very good. However, in an application as large as SAP there is always room for improvement. The three areas considered the most critical in the initial implementation review were still not fully addressed, although some progress had been made in resolving our concerns. The three areas were:

- access to SAP by departmental managers;
- critical standard reports; and
- business continuity plans.

Compliance and Special Audits

September 2001

Compliance and Forensic Services issued a report on the *Investigation of an Adult Learning Centre in Morris-Macdonald School Division #19*. This report reviewed allegations involving a particular adult learning centre operating a program within the Morris-Macdonald School Division. The allegations concerned overstated student enrollment for receipt of provincial funding, and significant problems with quality of education and administration practices in the adult learning centre. In order to situate our findings in an appropriate context, we also examined the role of the School Division and the Department of Education, Training and Youth, in the delivery of adult learning in Manitoba. Findings and recommendations were released in a report to the legislature in 2001.

Projects Underway

Compliance and Forensic Services have the following projects underway:

- An investigation of missing artifacts at the Anthropology Museum of the University of Winnipeg.
- An investigation into concerns relating to the resettlement of Hecla Island.
- An investigation into allegations concerning a rural municipality in Manitoba.
- A review of municipal accounting and the role of the Department of Intergovernmental Affairs relating to Municipalities.
- A review of the Student Records Section of the Professional Certification and Student Records Unit of the Department of Education, Training and Youth.

Reports on these projects are planned to be issued in the fall of 2002.

Value-For-Money Audits

February 2002

In February 2002 we issued a report that was comprised of a chapter on our audit of the Keewatin Community College, and a chapter on our Follow-up of Recommendations Made in our Autumn 1997 Report regarding previous audits.

Our audit of the Keewatin Community College examined the College's investment in information technology. Key findings included:

- the need for a multi-year information technology strategic plan;
- the need to ensure users were satisfied with the nature and quality of information and reports;
- the need to better manage the help desk;
- the need to ensure information technology purchasing policies were complied with; and
- the need to take certain actions to minimize the risk of unauthorized access to the College's computer systems.

With respect to the follow-up of our autumn 1997 recommendations, we provided the Legislative Assembly with departmentally prepared status reports. Our work was limited to conducting a review to assess the plausibility of management's comments.

Of the 25 recommendations followed up, 18 related to our report on the Maintenance Enforcement Program. Management reported that it had implemented five recommendations, had made some progress on 11, and no progress on two.

Seven recommendations related to the Child Day Care Program. Management reported that three recommendations had been implemented, and that significant progress had been made on three. They reported no progress on one recommendation.

Projects Underway

- During 2001/02 we began the planning and/or fieldwork on five other audits. The subject matters for these audits are:
  - Water Wells
  - Home Care
  - Red River College
  - Assiniboine Community College
  - Epidemiology Unit

Governance Services

November 2001

In November 2001 the Auditor General released a report entitled, *A Review of Policy Development Capacity Within Government Departments*. The report examined policy development capacity along three dimensions:

- the policy development process in departments;
- the organizational framework within which policy development takes place; and
- the quality of policy documents.

As part of the study process, seventy-two interviews were conducted with Cabinet Ministers, the Policy Secretariat and departmental senior management; and twenty-two policy documents from government departments were reviewed. The review highlighted that elected and appointed officials approached the subject of policy capacity with enthusiasm and a conviction regarding the link between capacity and effective policy development. However, departments are not always able to provide the quality of advice they would like.

One of the critical messages we heard over and over from senior management is that policy demand from Government outstrips the availability of time and policy staff to get the job done. Whether the inability to keep up with the demand for policy development is a function of insufficient policy staff or limited skills needs to be determined. The report suggests that this question is best answered by further analysis and discussion among the key players in government.

The report also identified several other areas that need attention, some of which included:

- internal consultation and coordination;
- evaluation of whether policies are achieving intended results;
- provision of sufficient evidence to substantiate proposed policy direction; and
- presentation and assessment of options.

Projects Underway

Governance Services have the following projects underway:

- A board governance survey of all board members and Chief Executive Officers of Manitoba's 12 Regional Health Authorities. Findings will be released in an upcoming report to the Legislative Assembly.
- A review of the performance information contained in the annual reports of a sample of Manitoba's crown entities. Findings and recommendations from this review are expected to be released in late 2002.

Information Technology Audit Services

Projects Underway

- Audit of the Province's capability to respond quickly and effectively to computer security incidents within Government departments.
- A review of the organizational structure of Information Technology in the Provincial Government.
- A review of the management of software licensing in the Province.

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Financial Statement Audit Services

Financial Statement Services strives to provide effective, efficient and economical attest services to our clients. These services include:

- Providing opinions on annual financial statements, special reports, and public sector compensation disclosures;
- Issuing client management letters to provide financial, internal control, compliance, or general operational recommendations;
- Conducting overviews of government entities, which may also encompass file reviews of their private sector accounting firm auditors. This work is necessary for our reliance on the work of the private sector accounting firms for consolidation of their clients financial statements into the Summary Financial Statements for Public Accounts;
- Completing special reports on financial information; and
- Reviewing compliance with legislation to the extent required for the issuance of financial statement opinions.

During this fiscal year, the work of Financial Statement Services expanded, as much as constrained staff resources permitted, into the conduct of project audits. Project audits were selected to complement the financial expertise of employees and focused on grant accountability, and financial statement issues regarding financial statements received from external entities.

GOALS

Assess whether accountability information provided by the Government to the Legislative Assembly and the public is fair and reliable.

Promote adoption of Canadian Institute of Chartered Accountants (CICA) and Public Sector Accounting Board (PSAB) standards across all audit entities.

Identify/monitor emerging issues of public sector significance.

Strengthen the role and functions of the Public Accounts Committee in relation to this office.

Our Accomplishments – 2001/02

- Provided in excess of 100 attest audit opinions, and conducted partnered audits and overviews on a timely basis. (See Appendix A for Financial Statement Audits Within the Government Reporting Entity conducted by the Auditor General's Office, and Appendix B for Other Financial Statement Audits Conducted by the Auditor General's Office.)

PRIORITIES FOR 2002/03

Provide attest audit services for public sector entities.

Complete scheduled special project work.

Conduct scheduled revenue and overview audits as planned.

Provide responsive service for special request assignments.

Expand the use of information technology in the performance of attest assignments.

Issue requests for proposal for selected attest audit partnering arrangements.

- Issued audit opinions on the Public Accounts of Manitoba in accordance with the statutory deadline and issued the Audit of the Public Accounts Report to the Legislative Assembly in January 2002.
- Provided an attest opinion on the Labour Market Development Agreement (LMDA) between the Government of Canada and the Government of Manitoba for the year ended March 31, 2001.
- In early 2002, the Province of Manitoba was informed of a significant error with respect to the omission of the provincial portion of mutual fund capital gains refunds from the Federal/Provincial Tax Sharing Statements prepared by the Canada Customs and Revenue Agency (CCRA). The Office of the Auditor General of Canada (OAG) was requested to undertake audit procedures to verify the amount of the omission error, to determine whether the CCRA's procedures applicable to capital gains refunds had been rectified, and to determine whether other additional material errors could have occurred. The Deputy Auditor General of Manitoba actively participated in a working group comprising members of the Canadian Council of Legislative Auditors (CCOLA) that was established to review the Auditor General of Canada's proposed audit plan; to provide input on issues arising during the audit; and to assess the results of the audit work done. The working group consisted of senior representatives from five provincial legislative audit offices (Ontario, Manitoba, British Columbia, Alberta and Quebec). The Deputy Auditor General of Manitoba met on a number of occasions to discuss this issue with representatives of the Manitoba Department of Finance and Manitoba Federal/Provincial Relations, and our Office provided a summary letter on this issue to the Deputy Minister of Finance in July of 2002.
- Completed a review of the Government's SAP software upgrade and security. Specific reports were drafted for distribution to the Provincial Controller, Enterprise System Management (ESM), and various government departments providing recommendations for improved internal controls.

- We studied the use of software to assist in examining information produced by SAP and selected the Audit Information Systems (AIS) provided by SAP. We worked with information systems personnel in the Province to configure AIS for future use and plan to use AIS in the audit of the Public Accounts for the year ended March 31, 2003.

- Conducted four special audits addressing financial reporting and grant accountability issues during the year, with reports to be finalized during 2002/03.

- Conducted, in partnership with an agent firm, a three year historical financial review of the University of Winnipeg for reference in discussions within the University of Winnipeg, and between the University of Winnipeg and the Council on Post Secondary Education.

- Substantially increased the issuance of management letters for attest audit clients.

- Facilitated discussions between the Department of Health, the Department of Finance, and the Regional Health Authorities to ensure that financial statements of the Regional Health Authorities were available on a timely basis for consolidation into the Public Accounts Summary Financial Statements.

- Conducted several presentations to Boards, Finance Committees and Audit Committees of government reporting entities on: the role of the Office of the Auditor General; audit plans for the various entities; and Finance Committee and Audit Committee governance issues.

- Responded to increasing requests for assistance on financial issues from government departments, crown corporations, and agencies.

- Issued requests for proposals for selected attest audits and entered into six agency partnerships with private sector accounting firms.

- Provided comments on a number of accounting and auditing research papers issued by the Public Sector Accounting Board (PSAB) and the International Federation of Accountants.

- Participated in Canadian Council of Legislative Auditors (CCOLA) strategic issue information exchanges.
- Established a full-time Quality Assurance and Project Coordinator position to ensure audit techniques and the quality of audits conducted by the Office reflect high professional standards.
- Participated in the CCOLA Quality Assurance review of selected attest audit files in our Office. The review was conducted by representatives from the Auditor General of Canada, who concluded that the audits reviewed were carried out in accordance with generally accepted auditing standards of the Canadian Institute of Chartered Accountants.
- Partnered with a private sector accounting firm in the review and reassessment of our audit approach related to pension fund audits.
- Completed a review of our billing rates for financial statement audits. A new Order-in-Council will be submitted for the next fiscal year to adjust billing rates based on the study conducted.

Role of Quality Assurance

Our Office is responsible for providing assurance to legislators about the fairness of financial and other information presented as well as reporting on management practices and program performance of the government. In providing these services, we must exercise significant professional judgement and comply with professional standards in conducting our work and reporting our findings and opinions. As such, we have in place a quality assurance system in our Office. A Quality Assurance System seeks to ensure quality and consistency in judgements made, compliance with professional standards and Office policies, and support the achievement of high quality work.

The Audit Principal, Quality Assurance and Project Coordinator, is responsible for the quality assurance system. Our professional staff are first and foremost responsible for maintaining the quality of the work in the office. The quality assurance system enhances the quality of audits in the Office. The system includes:

- Review process – In this process, files and reports are subjected to internal reviews to ensure that the work performed complies with professional standards and office policies.
- Report pre-issuance procedures and Deputy/Auditor General concurrence – These procedures help provide assurance that the financial statements and other information are fairly presented and the opinion is appropriate.

Our Office is a member of the Quality Assurance Committee of the Canadian Council of Legislative Auditors (CCOLA). The Committee was formed because CCOLA recognized the importance of having a quality assurance approach for legislative auditors and providing them with assurance that their systems to manage quality with respect to audit engagements are well designed and effective. The goal is to ensure compliance with professional standards and the internal policies established by the legislative audit office. The Committee facilitates review of legislative audit offices by other legislative audit offices. Our office recently participated in this review process. We found it an excellent process and allowed for sharing of ideas on quality reviews and audit methodology between offices.

Practice Inspection

The Institute of Chartered Accountants in Manitoba routinely conducts practice inspections of audit firms involved in the practice of public accounting as defined in the General Provisions of The Institute of Chartered Accountants of Manitoba By-Laws. As a professional audit office, we are subject to this process. The objective of an inspection is to ensure compliance with Canadian Institute of Chartered Accountants Standards. In May 2002, the Institute of Chartered Accountants of Manitoba conducted a practice inspection of our Office, which resulted in no significant findings. The next review of the Office will take place in approximately four years.

Information Technology Audit Services

GOAL

Provide assessments and advice, regarding the management of information technology, to the Legislative Assembly.

PRIORITIES FOR 2002/03

Issue report for audits in progress.

Conduct two additional information technology audits.

Information Technology Audit Services was formed in January 2001 to conduct audits in areas including the following:

- Controls over information technology;
- The economy and efficiency with which information technology resources are managed; and
- The effectiveness of information technology initiatives within government.

In addition, assistance is provided to other Service Groups in the Office. This assistance consists of gathering audit evidence electronically and assessing automated controls to support audit opinions of financial and other information.

Our Accomplishments - 2001/02

- Began and completed a significant portion of an audit of the Province's capability to respond to computer security incidents.
- Participated in the Public Accounts audit review of SAP controls.
- The use of audit software to assist in the review of SAP information was studied, and resulted in the selection of Audit Information System (AIS) in SAP. The Office worked with information systems personnel in the Province in configuring AIS for future use. Use in the Public Accounts audit is planned for 2003.
- Assisted Value-for-Money Audit Services with the audits of information technology at community colleges.
- Assisted Financial Statement Audit Services with developing assessments of business controls over the enterprise resource planning software system used by government Departments.
- Developed an information technology audit universe.
- Developed a plan for Information System Auditor training and development.

Compliance and Forensic Audit Services

Compliance with authority audits involve assessing and commenting on the extent of compliance with government legislation, including regulations and other central government policies. Forensic Services involves the detailed review and assessment of financial and other information in order to determine whether inappropriate transactions or activities have taken place. The work of Compliance and Forensic Services is expected to continue to expand in the future as a result of increasing demand for both compliance and forensic services.

Additional resources will be needed in the future to ensure that issues being brought to our attention can be addressed in a timely and effective manner.

GOAL

Assess directly, and provide advice to the Legislative Assembly on significant compliance and forensic matters.

Our Accomplishments – 2001/02

- Completed an investigation of allegations involving a particular adult learning centre operating a program within the Morris-Macdonald School Division. The allegations concerned overstated student enrollment for receipt of provincial funding, and significant problems with quality of education and administration practices in the adult learning centre. In order to situate our findings in an appropriate context, we also examined the role of the School Division and the Department of Education, Training and Youth, in the delivery of adult learning. Findings and recommendations were released in a report to the legislature in October 2001.
- Recommendations put forward to the Province in the above report were incorporated into draft legislation for adult learning centres in Manitoba that was tabled in the spring of 2002.
- Attended to several meetings with citizens on issues of concern, and conducted preliminary assessments of issues reviewed.
- Successfully partnered with external experts in specialized subject areas in conducting our investigations and audits.

- Increased use of information technology in the performance of analytical work.
- Participated with the Hudson Bay Co. in a Compliance review in the Provincial Archives.
- A second member of Compliance and Forensic Services obtained the Certified Fraud Examiner's (CFE) designation.
- With the expansion of casinos in Manitoba, specialized auditor training was taken to prepare for future Compliance audits in this area.
- Continued development of a Compliance Audit Manual.
- Updated database of potential compliance with authority legislation audits.
- Developed a database of government grant programs to be used as a tool in the audit selection process.

PRIORITIES FOR 2002/03

Provide responsive service for special request assignments.

Conduct scheduled compliance audits as planned.

Increase resources for the performance of Compliance with Authority audits.

Expanding the use of information technology in the performance of compliance and forensic assignments.

Complete the development of a compliance audit universe.

Complete the development of a Compliance Audit Manual.

Value-For-Money Audit Services

In an effort to ensure that the work of Value-For-Money Services is viewed as value-added by the Legislative Assembly and the general public, we strive to:

- Select organizations or programs to examine which manage considerable public resources or which have a significant impact on their stakeholders and the public in general; and
- Design our examinations in such a way that we focus on the key result areas of the organization or program, and further, within these key result areas, on those aspects at greatest risk of not being managed with due regard for efficiency, effectiveness and economy.

GOAL

Assess directly and provide advice on Government performance.

We believe that to be value-added, our services must be responsive to the concerns of members of the Legislative Assembly, as well as government organizations and program administrators. Focussing on risks and key result areas, and engaging these parties in the audit process, will help ensure our findings and recommendations contribute to improving government operations in critical areas.

We will analyze the information and assess whether the results achieved indicate weaknesses in the supporting processes, systems and resource base. In examining these processes/systems we would look for:

- Inefficiencies (e.g., duplication of effort, failure to appropriately use IT);
- Lack of due regard for economy;
- Whether key activities are in place and functioning as intended;
- Adequacy of controls to safeguard assets from theft or misuse; and
- Adequacy of controls to ensure compliance with related Acts or regulations.

Because our work is increasingly focussed on organizational performance, several factors can have an impact on what we can reasonably accomplish. These factors include the extent to which:

1. Clearly stated and measurable performance expectations have been established by government organizations. Such expectations are the determinants of "value" for a given program. For the level of inputs provided (i.e., resources), policy makers must be very clear on the objectives to be achieved in terms of outputs and outcomes, and the indicators to be used to determine if expected results have been achieved. Objectives and indicators must deal comprehensively and explicitly with expectations regarding operational efficiency (standards), economy and effectiveness.
2. Appropriately detailed performance information has been gathered and analyzed by government organizations (related to the objectives and indicators).
3. Processes and performance have been benchmarked with comparable programs in comparable jurisdictions.

PRIORITIES FOR 2002/03

Issue two VFM reports to the Legislative Assembly.

Update the Value-For-Money audit manual to reflect process enhancements resulting from past audit reviews and our adaptation of the Institute of Internal Auditors' *Performance Auditing: A Measurement Approach* reference manual.

Engage representatives from the Canadian Council of Legislative Auditors to conduct a Quality Assurance review on a value-for-money audit engagement.

Conduct our audits within a more compressed timeframe.

Our Accomplishments - 2001/02

During fiscal year 2001/02 we undertook the following:

- Our report on the Keewatin Community College's Investment in Information Technology was issued to the Minister in November 2001, and released publicly in February 2002.
- We continued our audit work on the Student Financial Assistance Program. The key result areas that we focused on were: assessing student eligibility, calculating award entitlements, collection of outstanding loans, designating educational institutions, and reporting on performance.
- We continued our audit work on the Public Housing Program. The key result areas that we focused on were: managing vacancies and wait lists, assessing applicant eligibility, maintaining the physical condition of properties; calculating rental fees and minimizing arrears.
- Significant delays were experienced in drafting and finalizing our reports on the Student

Financial Assistance and Public Housing Programs. As at March 31, 2002 we were discussing a draft report with management of the Public Housing Program and nearing completion of a draft report on the Student Financial Assistance Program. We expect to publicly release both reports in September 2002.

- During 2001/02 we began the planning and/or fieldwork on five other audits:
    - Water Wells
    - Home Care
    - Red River College
    - Assiniboine Community College
    - Epidemiology Unit

- In 2001/02 we continued our efforts to increase the efficiency and effectiveness of our audit processes. We conducted a number of post audit reviews and identified opportunities to improve our planning and examination processes.

- Throughout the year we sought sources for additional guidance on the conduct of VFM audits with a focus on organizational results. In November 2001 the Institute of Internal Auditors issued the publication, *Performance Auditing: A Measurement Approach*. We considered the document to be an excellent reference manual for our VFM audit professionals. As a result, in association with Winnipeg Internal Auditors, the local Chapter of the IIA, we engaged the IIA to develop and deliver a three day course to cover the key elements of the reference manual. This course was delivered in late May 2002. We plan to revise our VFM policy manual to better reflect the processes promoted in this reference manual.

- Quality assurance continued to be a major focus for the VFM management team. Activities in this area included:

    1. Numerous discussions were held within individual audit teams, and with the Executive Director, focusing on the appropriateness of audit direction, scope and adequacy of evidence gathered.

    2. Numerous meetings were held with Program and Department staff throughout the audit

process. Such meetings form a vital element of our quality assurance process. At these meetings any concerns with the accuracy of facts gathered or the interpretation of these facts are discussed. Department concerns are taken seriously and we undertake considerable follow-up work to resolve any concerns brought to our attention.

3. The Executive Director of Value-for-Money Audit Services continues to be a member of the CCOLA Quality Assurance Study Group.

Governance Services

Governance Services provides assessments and advice on issues related to:

- board governance of various public sector and government-funded entities;
- the use of business planning and performance measurement within Government Reporting Entities; and
- public sector reform.

Enhancing the effectiveness of management practices in these areas contributes to improved organizational effectiveness and stronger accountability processes of public sector organizations. In this way, the work of Governance Services directly supports the Office's vision of being a leader in building greater public trust and confidence in the accountability of Government to the citizens of Manitoba.

GOALS

Promote effective board governance and enhanced accountability in the public sector.

Support the use of business planning, performance measurement and performance reporting in the public sector.

Our Accomplishments - 2001/02

- Completed a review of the policy development capacity among government departments. Findings and recommendations were released in a report to the Legislative Assembly entitled, *A Review of Policy Development Capacity Within Government Departments.*

- Completed a review of the board governance practices of Morris MacDonald School Division, in conjunction with the investigation of Adult Learning Centres conducted by Compliance and Forensic Services.

- Completed a review of the governance practices of Council in a rural municipality in conjunction with an investigation conducted by Compliance and Forensic Services.

- Conducted a board governance survey of all board members and Chief Executive Officers of Manitoba's 12 Regional Health Authorities. Findings will be released in an upcoming Report to the Legislative Assembly.

- Commenced a review of the performance information contained in the annual reports of a sample of Manitoba's crown entities. Findings and recommendations from this review are expected to be released in late 2002.
- In conjunction with the Auditor General, wrote an article on IT Governance that was published in the Information Systems Control Journal, an international journal of the Information Systems Audit and Control Association.
- Conducted a survey of all Members of the Legislative Assembly, to assess their opinion and satisfaction with our services and reports to the Legislative Assembly.

PRIORITIES FOR 2002/03

Report on the work commenced in 2002 to assess the quality of performance information reported in annual reports of crown entities.

Assess the quality of business/strategic plans of crown entities.

Continue governance research activities by completing a survey of Manitoba's Regional Health Authorities.

Conduct a follow-up on the Government's progress towards implementing recommendations in our July 2000 report on Business Planning.

Act as an internal resource on governance issues as they arise in other audits.

Computer Services

Computer Services provides support to our office hardware and software, network services, and protection of the integrity of the systems from hackers and virus threats.

To ensure security, office email and web browsing services are provided through the Government's internal extranet.

Computer Services continues to support the other service areas in the Office with the development of Computer Assisted Audit Techniques (CAATs), retrieval of information from government systems and general information technology support.

Our Accomplishments - 2001/02

- Over the past year, an additional Information Technology Specialist position was created and filled.
- Network, time keeping and audit software was upgraded, along with the replacement of network hardware, laptops and desktop computers.
- Established an Intranet Committee to provide input on the development of an Office Intranet.

GOAL

Provide for reliable, effective and secure systems that enable our audit services to achieve their goals.

PRIORITIES FOR 2002/03

Connect our satellite office at the Norquay Building.

Upgrade Microsoft Office Suite software.

Complete the development of an Intranet.

Enhance cross-office communication and knowledge management.

Administrative Services

Administrative Services are the support services for the Office. The staff ensure that the accounting and office administration are conducted in an efficient and effective manner. In addition, staff spend time on human resource activities, meetings and planning activities.

In September 2003 the Office will be co-hosting, with the Legislative Assembly Public Accounts Committee, the Canadian Council of Legislative Auditors (CCOLA) national conference in conjunction with the conference of the Canadian Council of Public Accounts Committee.

Our Accomplishments - 2001/02

- Coordinated the preparation of the Office budget and presentation material for the Legislative Assembly Management Commission.
- Prepared monthly financial statement and operations reports.
- Participated in the issuance and evaluation of proposals for the selection of the external auditor for the Office. A contract was awarded in the spring of 2002.
- Coordinated the financial statement audit of the Office.
- Coordinated the preparation of the annual Operations report.
- Coordinated office billing and time systems.
- Drafted an employee orientation manual.
- Continued to expand and develop our internal design and printing capabilities.
- Coordinated external and Office-wide meetings and staff travel.
- Participated on the Professional Development Committee.
- Participated on the Sustainable Development Committee.
- Coordinated the human resource recruitment, orientation and appraisal processes.
- Coordinated Office access and security systems.
- Provided day-to-day office support.

GOAL

Ensure that the accounting and office administration is conducted in an effective, efficient, and economical manner.

PRIORITIES FOR 2002/03

Develop a disaster recovery/business continuation plan.

Update the office administration manual.

Develop a budget presentation for the Legislative Assembly for 2003 budget submissions.

Assist in the coordination of a Client Open House, an Agent Open House and an Open House for Internal Auditors of Government Entities.

Establish a long-service employee recognition program.

Expand on the internal performance reporting process.

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Human Resources

The complexities of issues needed to be addressed by the Office is increasing in correlation to the increasing complexities of issues facing the public sector. The future for the Office is exciting, but demands that we maintain strong competencies and skill sets. We see the need to provide continuous professional development, and to offer competitive salaries and excellent working conditions in order to attract and retain skilled and dedicated employees. Some of our human resource activities/events were as follows:

- The Office is presently assessing the merits of restructuring our audit teams on a sectoral basis.
- The Office presented a request for bargaining unit exclusion to representatives of the Civil Service Commission and the Manitoba Government Employees Union. The results are not yet known.
- An independent salary survey was conducted in 2001. The information is being referenced in discussions with the Civil Service Commission.
- The Office is presently developing a core competency model to be used in the hiring and development of employees.
- A number of knowledge transfer opportunities were provided to employees through their working with external subject matter experts.
- The Office conducted a number of staff meetings this year to discuss new initiatives and audit reports.
- There was expanded involvement of employees in the Canadian Council of Legislative Auditors (CCOLA), the Institute of Internal Auditors (IIA) and the Information Systems and Control Audit Association (ISACA).
- In 2001, the Office established an Information Technology Services practice with three employees. This practice is responsible for performing information technology audits in the provincial government and provides information technology support to other service practices in our Office.

- With the increasing importance of the use of information technology in the Office, an additional Computer Services support position was created and was filled in 2001.
- In order to strengthen our quality assurance process in the Office, a new Quality Assurance and Project Coordinator position was created and filled in the current fiscal year.
- Two new Value-For-Money auditors started with the Office during the current fiscal year.
- Two new Financial Statement auditors started with the Office during the current year.
- A new Investigative position for the Compliance practice was created within the Office's approved complement staffing level.
- The Office participated in the University of Manitoba recruitment initiative through the Manitoba Institute of Chartered Accountants and hired four CA summer students.
- One auditor accepted a position within the provincial government, and one auditor accepted a position with the Civil Service Superannuation Fund.
- The Office developed new support protocol for articling CA students to facilitate their successful completion of the new Chartered Accounting School of Business (CASB) program.
- The Office equipped the satellite office in the Norquay building, used by the Public Accounts audit team, with shared computing technology.
- An active social committee in the Office planned a number of events that were attended by staff members and their families.

Communications

The Office's communication activities are an essential contributor to the overall achievement of the Office's mission and desired outcomes. Our communication goals have two primary purposes:

- To heighten awareness of the findings and recommendations made in our audit reports, in order to improve their impact and contribution to public sector effectiveness and accountability; and
- To heighten awareness of the role, responsibilities and activities of the Office in order to reinforce legislators' and citizens' trust that our services are a valuable contribution to the accountability of government.

Our Office website - **www.oag.mb.ca** – provides the public with easy access to our reports, as well as to information about our services. All reports to the Legislative Assembly and press releases are made available on our website on the day of issuance.

Over the past year, the Auditor General hosted two international delegations (Ukraine and South Africa) and made numerous presentations about our work to a variety of public sector audiences. Speaking engagements of the Auditor General included:

- Being a keynote speaker on IT Governance at the eManitoba Exposition, as well as luncheon presentations on IT Governance to the Information Systems Audit and Control Association, and the Information Protection Association of Manitoba.
- Participation on a panel discussion regarding "Perspectives on Governance" at the annual School Trustee Development Forum held by the Manitoba Association of School Trustees.
- Presentations on our report, "The Policy Development Capacity Within Government Departments", to the Institute of Public Administration of Canada, the Canadian Evaluation Society, the CCOLA Performance Reporting and Auditing Group, and University of Manitoba students enrolled in graduate studies.

- A presentation on "Recruitment and Retention in Times of Fiscal Restraint" to the Intergovernmental Conference on Compensation, Classification and Collective Bargaining.
- Participation on a "Continuous Learning" panel discussion organized by the Service Quality Partners of the Manitoba civil service.
- A number of presentations on the role of the Auditor General and legislative auditing, to the Asper School of Business Accounting Students Association, University of Winnipeg political science students, University of Manitoba archival science students, the Management Internship Program, and Aboriginal Management Internship Program.
- The Office developed the following brochures:
  - Legislative Audit: Serving the Public Interest;
  - Mechanisms and Practices for Ensuring the Accountability of Legislative Auditors; and
  - Audit Committees.

Professional Development Committee

The Office continued to provide a quality learning and development environment for all employees. The Professional Development Committee focused the staff training program on the following objectives:

- Demonstrating leadership in the development and application of audit and review services;
- Promoting the highest standard of professional capabilities among staff; and
- Ensuring that Office resources are expended with due regard to value-for-money.

The Committee also ensured that training and development opportunities were in keeping with areas of strategic importance to the Office and that sufficient training was provided to meet professional education requirements.

This year the Committee planned and coordinated seven programs, courses and lectures. These covered a wide variety of topics including CICA Handbook and PSAB updates, a report writing workshop, interviewing skills, and designing program logic models. Also, as a result of the Auditor General's membership in the Associates Program at the Asper School of Business, staff were able to attend a series of management training seminars.

Computer training was also made available to staff on an "as needed" basis and staff were encouraged to take advantage of self-directed learning opportunities, with the Office covering a portion or all of the cost.

For the upcoming year, the Committee will continue with its mandate, and plans to offer a broad range of professional development opportunities. By investing in the professional knowledge of staff, the Office is helping to ensure the continuation of high quality audit services.

Other Training and Professional Development Opportunities

In addition to offerings by the Professional Development Committee, employees attended external training and development courses, seminars, and conferences.

The Office is a Manitoba Institute of Chartered Accountants approved training office and supports articling students in their preparation for Uniform Final Examinations (UFEs). This year three staff were successful on the UFEs and earned their CA designation.

Three staff members also earned the Certified Fraud Examiner designation (CFE), and the Deputy Auditor General successfully completed a Masters of Business Administration (MBA) degree.

One staff member is currently scheduled to write the Certified Information Systems Auditor (CISA) examination.

External Liaison

THE CANADIAN COUNCIL OF LEGISLATIVE AUDITORS (CCOLA) STUDY GROUPS

1. Strategic Issues Group

The Office is represented on the CCOLA Strategic Issues Study Group, a committee composed of senior executives of each legislative audit office, including Canada. Offices benefit from collectively considering proposed solutions for urgent and emerging accounting and assurance issues. The committee actively addressed many requests for cross-Canada input from various legislative offices. Guidance on issues and studies is provided to other CCOLA committees where needed.

The Committee is also involved in the development of audit office performance indicators.

2. Human Resource Management

The Office is represented on the CCOLA Study Group on Human Resource (HR) Management. The objectives of this study group are to:

- provide a network to share information on HR practices and initiatives as they apply to legislative auditing;
- promote HR best practices; and
- develop HR-related surveys.

During the current fiscal year the committee conducted a number of surveys and compiled comparative human resource information for reference by legislative offices.

3. Quality Assurance

The Office is represented on the CCOLA Study Group on Quality Assurance. The goal of the study group is to establish a common methodology that can be used by legislative auditing offices to review the quality of their professional work.

Last year, the study group completed a set of Quality Assurance review tools as follows:

- Quality Assurance Guiding Principles;
- Post-Audit Issuance Review Guide for Financial Statement Attest Audits; and

- Post-Audit Issuance Review Guide for Value-for-Money Audits.

In 2001/02 the study group coordinated a pilot project involving the conduct of Quality Assurance reviews using the above-noted tools. Volunteers were sought from among the legislative audit offices as either "reviewing offices" or "reviewed offices".

Our Office participated in the pilot by having two of our financial statement audits reviewed by professionals from the Office of the Auditor General of Canada. The results of this review were favorable and it provided a great opportunity for the sharing of ideas on quality reviews and audit methodology between our offices.

4. Performance Reporting and Auditing

The Office is represented on the CCOLA Performance Reporting and Auditing Study Group, which has the following main objectives:

- To share among the legislative audit community experiences and research in the reporting and auditing of non-financial performance information both nationally and internationally;
- To advance the state of public reporting of non-financial performance information by federal/provincial/territorial governments and their agencies; and
- To advance the practice of providing assurance on non-financial performance information.

Over the past year the Study Group continued its work in developing a compendium of audit methodology based on the experiences of the Canadian legislative audit community. As well, work continues on the development of a database on business planning and performance measurement. The database is now accessible via the internet and provides data from senior governments across Canada and selected other countries on: business planning and performance measurement legislation; policies/procedures for the preparation of business plans and performance reports; and trends and future directions in the auditing of non-financial performance information.

5. Information Technology Committee

The Office is represented on the CCOLA Information Technology Study Group which provides input on best practices used in the audit and support of information technology, and provides advice on IT issues, including the use and maintenance of the CCOLA Web site. The Committee meets annually to discuss the use of information technology to improve the performance of legislative audit offices, including the methods and procedures used to audit information systems.

6. Health Indicators Study Group

The Office is represented on the CCOLA Health Indicators Study Group (HISG) that was established to consider audit issues related to the September 11, 2000 First Ministers Communiqué. The First Ministers agreed to report regularly to Canadians on health status, health outcomes and the performance of public health services. It was also agreed that each Provincial government and the Federal government would determine third party verification of their health performance indicators.

Over the past year HISG has focussed on audit strategies and audit reporting issues related to the health performance indicators report expected to be issued, by each Provincial government and the Federal government, no later than September 30, 2002.

Our Office was requested, by the Department of Health, to conduct third party verification for Manitoba's health indicator report for 2002.

OTHER CCOLA ACTIVITIES

7. Tax Accounting Error Working Group

In February 2002, a working group comprised of representatives from Manitoba, Ontario, British Columbia, Alberta and Quebec was formed to review the Auditor General of Canada's proposed audit plan; to provide input on issues arising during the audit; and to assess the results of the audit work done with respect to the omission of the provincial portion of mutual funds capital gains refunds from the Federal/ Provincial Tax Sharing Statements prepared by the Canada Customs and Revenue Agency. Our Office actively participated in the working group.

8. Financial Statement Symposium

The Auditor General, Deputy Auditor General and Chief Operating Officer, Audit Principal - Quality Assurance and Project Co-ordinator and Audit Manager in charge of the audit of Public Accounts participated in the annual CCOLA Financial Statement Symposium. Over the years, this symposium has continued to provide an excellent forum for discussing financial statement and auditing issues unique to the public sector with other legislative audit offices across Canada. This year an additional two days were added to the symposium to discuss and share developments in audit methodology and in the auditing profession.

MEMBERSHIPS WITH PROFESSIONAL ORGANIZATIONS

Canadian Institute of Chartered Accountants

The Office is represented on the following Public Sector Accounting Board (PSAB) task forces:

- The Government Reporting Entity Task Force
- The Liabilities, Contingencies and Commitments Task Force.

Institute of Chartered Accountants of Manitoba

The Office is represented on two committees of the Institute.

The Certified General Accountants Association of Manitoba

The Office is represented on a committee of the board.

Institute of Internal Auditors

The Office is represented on the board of Winnipeg Internal Auditors, the local Chapter of the IIA.

Certified Information Systems Auditors

The Office is represented on the board of the Manitoba Chapter.

CCAF-FCVI

The Office is represented on the Task Force on public performance reporting.

IT Governance Institute

The Office is represented on the International Board (based in Chicago).

Financial Executives Institute

The Office is represented on the Board of the Winnipeg Chapter.

The Associates of I.H. Asper School of Business

The Office has a membership in this organization.

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FINANCIAL MANAGEMENT DISCUSSION AND ANALYSIS

The audited financial statements for the Office of the Auditor General are provided in this report on pages 65 to 72.

Estimate Process

As per Section 27(3) of The Auditor General Act, the Office of the Auditor General receives funding from the Legislative Assembly appropriations. Late fall each year, the Office makes a budget presentation to the Legislative Assembly Management Commission. This Commission provides the forum for the Office to request salaries funding for complement positions and operations funding.

The Office of the Auditor General maintains a bank account for operating expenses independent from the province. Advances are provided by the Province up to the amounts approved by the Legislative Assembly Management Commission.

Note 5 to the financial statements summarizes the approved funding for the past two years. In both years, the Office managed within its allocated funding and returned unexpended balances to the Consolidated Fund in accordance with Section 27(4) of The Auditor General Act.

Balance Sheet

The accrued vacation payable has increased due mainly to an increase in the number of vacation days carried forward from the prior year and an increase in vacation entitlements. This liability is matched with a funding commitment from the Province of Manitoba.

The provision for employee severance benefits and employee pension benefits has increased as a function of increased employee years of service. These liabilities are matched with long-term funding commitments from the Province of Manitoba.

During the past fiscal year, the Office acquired a three year capital lease for computer equipment.

Year's Operations

Audit fee revenue is down slightly from the previous year due to reduced compliance audit cost chargebacks to government departments for 2002.

A slight increase in salaries for 2002 reflects increases for cost of living, promotions and reclassifications offset by position vacancies for a portion of the year.

Pension and other benefits is lower for 2002 as a result of 2001 having reflected an adjustment of the method of calculating pension as determined by an external Actuary.

Information technology service costs increased as a result of required computer hardware and software upgrades.

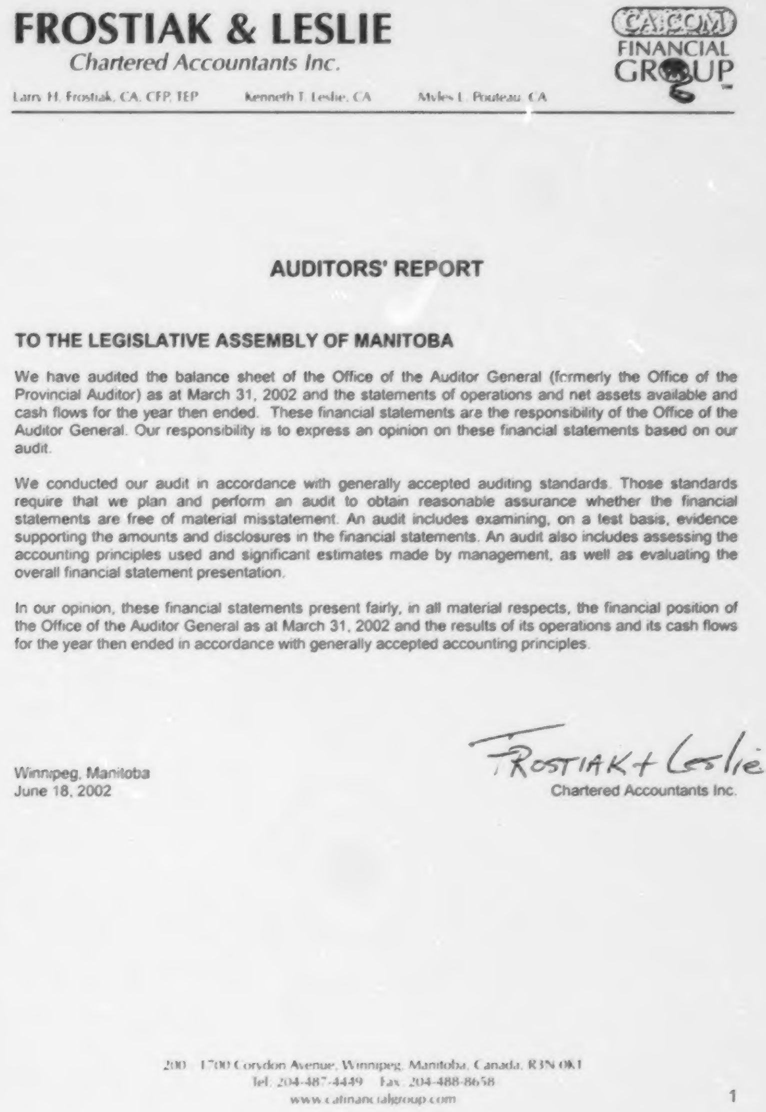
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Provincial Auditor for the year ended March 31, 2002 are the responsibility of management of the Office. Management has prepared the financial statements to comply with The Auditor General Act and with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including an organizational structure that effectively segregates duties. These controls provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded and financial information is reliable and accurate.

The financial statements have been audited by the firm of Frostiak & Leslie, Chartered Accountants Inc. Their report to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the financial statements, appears on page 64.

Jon. W. Singleton, CA•CISA
Auditor General
June 18, 2002



FROSTIAK & LESLIE
Chartered Accountants Inc.

Larry H. Frostiak, CA, CFP, TEP   Kenneth T. Leslie, CA   Myles L. Pouteau, CA

CA-COM FINANCIAL GROUP

AUDITORS' REPORT

TO THE LEGISLATIVE ASSEMBLY OF MANITOBA

We have audited the balance sheet of the Office of the Auditor General (formerly the Office of the Provincial Auditor) as at March 31, 2002 and the statements of operations and net assets available and cash flows for the year then ended. These financial statements are the responsibility of the Office of the Auditor General. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Frostiak + Leslie
Chartered Accountants Inc.

Winnipeg, Manitoba
June 18, 2002

FINANCIAL STATEMENTS AND NOTES

Balance Sheet
as at March 31, 2002
(000s)

Office of the Auditor General
BALANCE SHEET

As at March 31, 2002, with comparative figures for 2001 (000's)

	2002	2001
ASSETS		
Current assets		
Accounts receivable	$ -	$ 1
Short term funding commitments - Province of Manitoba	323	283
Prepaid expenses	74	78
Work-in-progress - audit fees	144	163
	541	525
Long term funding commitments - Province of Manitoba	7,486	7,030
Capital assets (Note 3)	340	218
	$ 8,367	$ 7,773
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accrued liabilities	$ 16	$ 16
Accrued vacation pay	323	283
Current portion of lease obligations (Note 4)	63	13
	402	312
Provision for employee severance benefits	519	437
Provision for employee pension benefits	6,967	6,593
Capital lease obligation (Note 4)	102	-
	7,990	7,342
Net assets available	377	431
	$ 8,367	$ 7,773

See accompanying notes to financial statements.

Approved by the Office of the Auditor General:

__________ Auditor General

__________ Deputy Auditor General

Statement of Operations and Net Assets Available
Year Ended March 31, 2002
(000s)

Office of the Auditor General

STATEMENT OF OPERATIONS AND NET ASSETS AVAILABLE

Year ended March 31, 2002, with comparative figures for 2001 (000's)

	2002	2001
Revenue		
Audit fees	$ 691	$ 723
Province of Manitoba - net funding (Notes 5 and 6)	4,201	5,556
	4,892	6,279
Expenses		
Salaries	2,448	2,400
Pension and other benefits	1,027	2,461
Professional fees	696	641
Rent	162	160
Office and miscellaneous	138	140
Information Technology services	115	86
Professional Development	99	106
Printing costs	71	80
Dues and subscriptions	41	39
Travel	22	32
Interest and bank charges	7	4
	4,826	6,149
Excess of revenue over expenses before undernoted	66	130
Amortization of capital assets	(120)	(206)
Excess of expenses over revenue	(54)	(76)
Net Assets Available, beginning of year	431	507
Net Assets Available, end of year	$ 377	$ 431

See accompanying notes to financial statements.

Statement of Cash Flows
Year Ended March 31, 2002
(000s)

Office of the Auditor General
STATEMENT OF CASH FLOWS

Year ended March 31, 2002, with comparative figures for 2001 (000's)

	2002	2001
Operating activities		
Loss	$ (54)	$ (76)
Items not involving a current outlay of cash		
Amortization	120	206
	66	130
Net change in non-cash working capital balances		
Accounts receivable	1	-
Short term funding commitment - Province of MB	(40)	(30)
Prepaid expenses	4	(35)
Work-in-progress - audit fees	19	10
Accrued vacation pay	40	30
Long term funding commitment	(456)	(1,935)
Provision for employee severance	82	380
Provision for employee pension	374	1,557
	90	107
Investing activities		
Purchases of capital assets	(242)	(37)
Financing activities		
Proceeds of capital lease obligations	152	(70)
Net increase in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

See accompanying notes to financial statements.

4

Notes to Financial Statements
March 31, 2002

Office of the Auditor General
NOTES TO FINANCIAL STATEMENTS

March 31, 2002 (000's)

1. NATURE OF OPERATIONS AND ECONOMIC DEPENDENCE

The Auditor General is appointed under the Auditor General's Act (Chapter 39) as an officer of the Legislature. The Act provides for the establishment of the Office of the Auditor General (formerly the Office of the Provincial Auditor) and sets out the authority and powers of the Auditor General, identifies the audit services to be provided, and establishes reporting responsibilities.

All of the funding for the operations of the Auditor General's Office is approved by the Legislative Assembly Management Commission and included in the Government's estimates as voted through the Appropriation Act by the Legislative Assembly. Accordingly, the Office is economically dependent on the Province of Manitoba.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

a) Revenue from the Province of Manitoba

Funding from the Province of Manitoba is recognized as revenue based on transactions reflected through the Consolidated Fund of the Government. Revenue includes cash payments processed against appropriations of the Legislative Assembly, cash payments for the employer's share of pension benefits paid to retirees from the Office, and the Offices' share of provisions recorded for unfunded pension benefits, accrued severance benefits and accrued vacation pay. This funding is then reduced by the amount of audit fees collected by the Office and deposited to revenue accounts of the Consolidated Fund.

b) Revenue from audit fees

Audit fee revenue is recognized on the basis of the percentage of work completed for those government entities which are charged for attest audit services and which account for their financial activities outside of the Consolidated Fund. The amount reflected as work-in-progress is valued at its estimated billable amount.

c) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incident to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

Office of the Auditor General
NOTES TO FINANCIAL STATEMENTS

March 31, 2002 (000's)

d) Pension costs

Employees of the Office of the Auditor General participate as members of the Civil Service Superannuation Plan, a defined benefit pension plan.

The employer's portion of the pension benefits paid to retired employees are processed through central appropriations to the Government and reflected in these financial statements as both revenue and expenditure transactions. Provision is recorded at the year end to reflect the Office's pro-rata share of the most recent actuarial valuation of unfunded pension liabilities estimated for the Civil Service Superannuation Plan. The most recent Actuarial Valuation Report available was compiled as at December 31, 1998.

e) Severance benefits

Provision has been made for employee severance entitlements based on one week of salary for each year of service up to a maximum of fifteen weeks. In addition to this severance, employees who retire in accordance with the provisions of The Civil Service Superannuation Act will also be eligible for severance pay:

a) Employees with 20 or more years of accumulated service, an additional 2 weeks of pay;
b) Employees with 25 or more years of accumulated service, an additional 2 weeks of pay plus the amount in a) above;
c) Employees with 30 or more years of accumulated service, an additional 2 weeks of pay plus the amounts in a) and b) above;
d) Employees with 35 or more years of accumulated service, an additional 2 weeks of pay plus the amounts in a) and b) and c) above.

The provision includes accumulated benefits for all employees and includes a probability rate provided by the Province of Manitoba.

f) Vacation Pay

The value of employee vacation entitlements earned but not taken at the year end is recorded as a liability.

g) Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. The more subjective of these are estimating the pension obligation and severance liability. Actual results could differ from those estimates.

h) Amortization

Capital assets are stated at cost. Capital assets are amortized using the straight line basis over the estimated useful life of the capital assets as follows:

Computer hardware and software	3 years
Computer equipment under capital lease	3 years
Furniture and fixtures	10 years

Office of the Auditor General

NOTES TO FINANCIAL STATEMENTS

March 31, 2002 (000's)

3. CAPITAL ASSETS

	2002		2001	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware and software	$ 524	$ 466	$ 549	$ 500
Computer equipment under capital lease	259	97	191	159
Furniture and fixtures	175	55	175	38
	$ 958	$ 618	$ 915	$ 697
Net book value	$ 340		$ 218	

4. CAPITAL LEASE OBLIGATIONS

The Auditor General's Office has capitalized equipment that is leased as follows:

	2002	2001
Capital lease - bears interest at 8.25%, with a monthly payment of principal and interest of $1.3, expiring February 23, 2002	$ -	$ 13
Capital lease - bears interest at 7.55%, with a monthly payment of principal and interest of $6.0, expiring September 26, 2004	181	-
	181	13
Less: Lease interest	16	-
	165	13
Less: Current portion of principal payments	63	13
	$ 102	$ -

Future minimum lease payments for next five years: principal and interest

2002	$ 73
2003	72
2004	36
2005	-
2006	-
	$ 181

Office of the Auditor General

NOTES TO FINANCIAL STATEMENTS

March 31, 2002 (000's)

5. REVENUE - PROVINCE OF MANITOBA

In accordance with Section 27(3) of the Auditor General's Act, the costs of carrying on the business of the Office of the Auditor General shall be paid from the Consolidated Fund of the Province of Manitoba. As a result, net funding from the Consolidated Fund which is attributable to the costs of the Office has been reflected as revenue and includes expenditure transactions processed through the Consolidated Fund on behalf of the Office, less any audit fees and other recoveries which have been deposited to the Consolidated Fund.

Net funding from the Consolidated Fund which is reflected as revenue is comprised of the following amounts:

	2002	2001
Funding from the Legislative Assembly appropriations:		
Salaries	$ 2,661	$ 2,605
Operating	1,058	1,033
	3,719	3,638
Cash payments-employer's share of employee pension benefits	307	281
Deposits of audit fees and other recoveries	(322)	(330)
Net cash from Consolidated Fund	3,704	3,589
Increase in future funding commitments:		
Employee pension benefits	374	1,927
Severance pay	82	10
Vacation pay	41	30
Revenue from the Province of Manitoba	$ 4,201	$ 5,556

Revenue from the Legislative Assembly for the operations of the Office was originally approved in the annual estimates of the Government, and subsequently adjusted as follows:

	2002	2001
Salaries	$ 3,164	$ 3,026
Other	950	950
Approved estimates, adjusted	$ 4,114	$ 3,976
Payments process, as above	$ 3,719	$ 3,638
Unexpended balance	$ 395	$ 338

Office of the Auditor General

NOTES TO FINANCIAL STATEMENTS

March 31, 2002 (000's)

6. CHANGE IN PENSION OBLIGATION

The most recent actuarial valuation of the pension obligation of the Office of the Auditor General was prepared as at December 31, 1998. This report became available during the preparation of the prior year's financial statements and, consequently, the pension obligation as at March 31, 2001 reflects the estimates contained in this valuation. A cumulative adjustment was made in the prior year representing the retroactive effect of the change in pension obligation of preceding years. The result of this adjustment is that the Province of Manitoba - net funding revenue and pension and other benefits expense in the prior year was increased by $1,557 representing the retroactive effect of the change in pension obligation of preceding years.

7. STATEMENT OF CASH FLOWS

Interest and bank charges included in the statement of cash flows that were paid during year are $7 (2001 - $4).

8. COMMITMENT

The Auditor General's Office is committed to lease office premises at 500-330 Portage Avenue (Newport Centre) in Winnipeg, Manitoba. Minimum annual lease payments are approximately $160, plus annual adjustments for occupancy costs to Transportation and Government Services.

9. COMPARATIVE FIGURES

Prior year figures were audited by Burke Cantor & Co. Chartered Accountants. Certain of the prior year figures have been reclassified to conform to the current year's financial statement presentation.

AUDITORS' REPORT ON PUBLIC SECTOR DISCLOSURE
March 31, 2002

FROSTIAK & LESLIE
Chartered Accountants Inc.
Larry H. Frostiak, CA, CFP, TEP   Kenneth T. Leslie, CA   Myles L. Pouteau, CA
CA.COM FINANCIAL GROUP™

To the Legislative Assembly of Manitoba

We have audited the Statement of Disclosure of Employee Compensation Payments of the Office of the Auditor General for the year ended March 31, 2002. Our responsibility is to express an opinion on the Statement of Disclosure based on our audit.

We conducted our audit in accordance with the Public Sector Compensation Act (Manitoba). The Act requires disclosure of aggregate compensation payments of $50,000 or more, including professional fees, severance pay and taxable benefits received from the Office of the Auditor General.

In our opinion, the Statement of Employee Compensation Payments of the Office of the Auditor General for the year ended March 31, 2002 presents fairly, in all material respect, the required disclosure in accordance with the Public Sector Compensation Act (Manitoba).

Frostiak + Leslie
Chartered Accountants Inc.

Winnipeg, Manitoba
July 12, 2002

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SCHEDULE OF EMPLOYEE COMPENSATION
March 31, 2002

OFFICE OF THE AUDITOR GENERAL
DISCLOSURE OF EMPLOYEE COMPENSATION PAYMENTS
For the Year Ended March 31, 2002

In accordance with The Public Sector Compensation Act, disclosure is required of aggregate annual compensation payments of $50,000 or more. For the year ended March 31, 2002 employees of the Office of the Auditor General received compensation of $50,000 or more, including professional fees, severance pay and taxable benefits, as follows (in thousands):

Bell, Michael	Audit Associate	59
Buckwold, Jack	Audit Principal	66
Capozzi, Maria	Principal	59
Edwards, Gene	Audit Associate	63
Farag, Marianne	Principal	77
Gibson, Dennis	Audit Associate	63
Glesmann, Gord	Senior Auditor	53
Gwynne, Michael	Audit Principal	73
Hay, Susan	Audit Manager	60
Larson, Dennis	Audit Associate	59
Lewarton, Lawrence	Audit Principal	73
Lysyk, Bonnie	Deputy Auditor General & Chief Operating Officer	97
MacBeth, Gregory	Audit Principal	73
Martin, James	Audit Principal	73
McBeth, Patricia	Audit Principal	73
Ormonde, Brian	Audit Associate	63
Oswald, Ron	Audit Principal	63
Petrie, David	Audit Principal	73
Rahim, Faizul	Audit Associate	63
Ricard, Norman	Executive Director	94
Richardson, Shirley	Systems Coordinator	61
Ridler, Brian	Audit Associate	60
Ruby, Jason	Audit Manager	55
Singleton, Jon	Auditor General	130
Storm, David	Audit Associate	60
Unryn, Larry	Audit Principal	73
Wadge, Alison	Audit Associate	59
Wirth, Brian	Audit Manager	62

Performance Accountability

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Summary of the 2003/05 Strategic Plan 80

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Performance Measurement 82

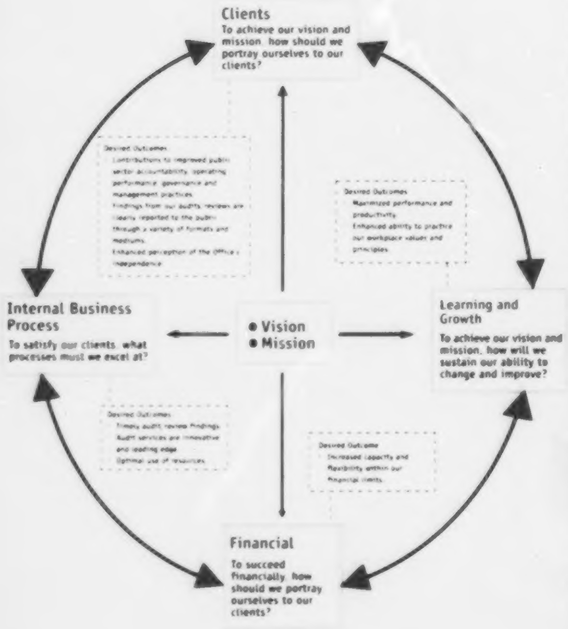
Our Strategic Planning Process

Our strategic plan is based on the Balanced Scorecard model. Through this approach, objectives, outcomes, actions and performance measures are developed that relate to four perspectives: Clients; Internal Business; Learning and Growing; and Financial.

The intent behind the model is to ensure that the strategic plan contains complementary and inter-related strategies from each perspective. Collectively, these perspectives ensure that a comprehensive and balanced approach is taken in order to realize an organization's desired outcomes. The desired outcomes developed by our Office are outlined on the following Figure.

Balanced Scorecard Model

The Balanced Scorecard Provides a Framework to Translate a Vision and Mission into Operational Terms


Clients
To achieve our vision and mission, how should we portray ourselves to our clients?
Desired Outcomes
Contributions to improved public sector accountability, operating performance, governance and management practices.
Findings from our audits, reviews are clearly reported to the public through a variety of formats and mediums.
Enhanced perception of the Office's independence.
Desired Outcomes
Maximized performance and productivity.
Enhanced ability to practice our workplace values and principles.
Internal Business Process
To satisfy our clients, what processes must we excel at?
Vision
Mission
Learning and Growth
To achieve our vision and mission, how will we sustain our ability to change and improve?
Desired Outcomes
Timely audit, review findings.
Audit services are innovative and leading edge.
Optimal use of resources.
Desired Outcome
Increased capacity and flexibility within our financial limits.
Financial
To succeed financially, how should we portray ourselves to our clients?

Our External Priorities

To achieve our desired outcomes for our clients, the focus of our work will be to support and promote within government reporting entities:

- the use of recognized accounting standards, e.g., Generally Accepted Accounting Principles (GAAP), as enunciated by the Public Sector Accounting Board (PSAB), and the Canadian Institute of Chartered Accountants (CICA);
- effective compliance with government legislation/regulations, policies and procedures;
- the effective use of information technology;
- the effective use of strategic/business planning and performance measurement;
- effective governance practices; and
- improved assessment and reporting on program effectiveness.

Our Internal Priorities

To build on our ability to achieve our desired outcomes, internal Office operations will focus on:

- enhancing coordination between our service areas;
- strengthening teamwork capabilities; and
- improving communication and the exchange of ideas within service areas and across the organization as a whole.

Summary of Results According to 2001/02 Strategic Plan

In accordance with our 2000/01 Strategic Plan, the following provides a summary of key actions completed over the past year to meet our desired outcomes.

Perspective	*Desired Outcome*	*Actions Completed*
Client	Contributions to improved public sector accountability, operating performance, governance and management practices	• Provided over 100 attest audit services, partnership audits and overviews on a timely basis. • A report on the Investigation of an Adult Learning Centre in Morris-Macdonald School Division #19 was issued in October 2001. • A report on the policy development capacity within government departments was issued in November 2001. • A report on the Audit of the Public Accounts was issued in January 2002. • A report on the investment in information technology in the Keewatin Community College was issued in February 2002. • Performed a follow-up on the status of recommendations made in past VFM reports. • Work is substantially completed with reports to be issued on two VFM audits, eight compliance and audit projects, and one information technology audit.
	Findings from our audits/reviews are clearly reported to the public through a variety of formats/mediums	• Press releases were issued for reports. • Reports and press releases were made available on the Office website at the time of their public release. • Auditor General made numerous presentations to a variety of audiences.
	Enhanced perception of the independence of the Office	• The new Auditor General Act was proclaimed Effective May 1, 2002. • Published brochures on Legislative Auditing. • Continued discussions for strengthening the role and function of the Public Accounts Committee of the Legislature.
Internal Business	Innovative and leading edge audit services	• Requested by the Minister of Health to conduct a third party verification for Manitoba's health performance indicator report to be issued in 2002. • Filled a new Quality Assurance and Project Coordinator position. • Expanded involvement of employees with CCOLA and external professional associations. • Supported expanded membership and involvement in professional associations. • Confirmed future work in Casino auditing in Manitoba. • Completed six agency agreements for attest audits. • Conducted audit planning and result presentations to a variety of finance/audit committees. • Selected audit projects focused on improved financial reporting within the public sector.

Perspective	***Desired Outcome***	***Actions Completed***
Internal Business (cont'd.)	Optimal use of resources	• Created a new Investigator/Auditor position in Compliance and Forensic Services. • Monitored employee utilization and audit costs, as well as other performance data. • Participated in the University of Manitoba recruitment initiative through the Institute of Chartered Accountants and hired four CA summer students. • Contracted with subject matter experts to assist in the conduct of audits/investigations. • Partnered with private sector accounting firms for resource secondments. • Reviewed and assessed our audit approach related to pension fund audits. • Upgraded hardware and software resources in the Office. • Assessed the potential for other audit software to assist in the audit of SAP.
Learning and Growth	Maximize performance and productivity and encourage a positive and professional work environment	• Developed a long-term human resource strategy. • Developed a professional development strategy. • The Professional Development Committee planned and coordinated seven programs, courses and lectures. This was supplemented with computer training and personal training and development options selected by individual employees. • Conducted several employee meetings and office report briefings. • Promoted open and transparent communication on issues being addressed by the Office. • Encouraged diversity of work opportunities and challenges for employees. • The Office Social Club organized a number of specific social functions for employees throughout the year.
Financial	Increased capacity and flexibility within our financial limits	• Monthly financial and quarterly operations reports prepared for Executive Committee. • Coordinated Office billing and time systems and produced required information. • Studied billing rate for financial statement audits. • Managed staffing levels in accordance with the approved budget and market availability of employees with the competencies required, in order to fill vacancies arising during the year. • Maximized the use of training dollars through attendance at local training courses.

Summary of 2003/05 Strategic Plan

The following strategies were developed as part of our three year strategic plan to help us achieve our desired outcomes. Specific action plans are developed for each strategy on an annual basis.

Perspective	***Desired Outcome***	***Strategies***
Client	Contributions to improved public sector accountability, operating performance, governance and management practices	• To conduct assurance services. • To conduct compliance and forensic investigations. • To conduct results-oriented VFM audits. • To conduct information technology audits. • To conduct governance reviews and studies. • To conduct business planning and performance measurement reviews and studies. • To respond to external requests/special audits. • To continue partnering with private sector accounting firms. • To follow-up on the status of recommendations made in past reports.
	Findings from our audits/reviews are clearly reported to the public through a variety of formats/mediums	• Update the external communication strategy as needed.
	Enhanced perception of the independence of the Office of the Auditor General	• To make organizational changes resulting from the new Auditor General Act. • To continue our efforts to strengthen the role and function of the Public Accounts Committee of the Legislature.
Internal Business	Innovative and leading edge audit services	• To identify opportunities for our work in areas of emerging public sector issues. • To encourage ongoing enhancement of skills in results-based auditing. • To continuously incorporate current thinking on control and risk management into our audit processes. • To promote adoption of CICA/PSAB standards across all audit entities. • To maintain and encourage external networking and membership in professional associations.
	Optimal use of resources	• To maintain an audit universe for the selection and coordination of audits. • To ensure that the Public Accounts audit is planned and conducted to ensure the optimal use of resources. • To ensure auditing standards for all services are current and to continue to enhance the Office's quality assurance process. • To use multi-disciplinary audit teams where appropriate. • To ensure the Office's information technology structure effectively supports the operation of the Office. • To monitor and report on our operations. • To monitor and ensure client satisfaction with our services.
Learning and Growing	Maximize performance and productivity and encourage a positive and professional work environment	• To implement our long-term human resource strategy. • To implement our professional development strategy.
Financial	Increased capacity and flexibility within our financial limits	• To maintain an optimum level of resources among service groups.

Best Practices - Critical Success Factors

This is a list of critical factors or practices that we consider to be essential ingredients of a quality legislative office. Essentially the critical factors represent qualitative performance indicators against which we benchmark our performance.

Critical Success Factors

Practices and Activities	***Our Performance***	**Number**	**%**
Strategic Planning	• Three year Business Plan in place that is updated annually with a major review every three years.		
Performance Measurement	• Measures developed and evolving.		
Audit Procedure Manuals	• Manuals exist for Financial Statement Services and Value-For-Money Services; both are reviewed annually to ensure they are current. • A Manual is in development for Compliance and Forensic Services.		
Quality Control Review	• Peer review scheduled annually on a selected number of audits.		
Quality Assurance	• Review completed by the Office of the Auditor General of Canada. • Practice inspection completed by the Manitoba Institute of Chartered Accountants. • Dedicated Quality Assurance and Project Management position established in the Office.		
Audit Selection Process	• Risk assessment process being refined.		
Percentage of Staff with a Professional Accounting Designation and/or an Advanced Degree (e.g., Masters)	• Staff with an Accounting Designation/Audit Certification	31	69
	• Staff with an Advanced Degree	5	11
	• CA Students	4	9
	• Non-designated Staff	5	11
	Total Audit Staff	45	100
Opportunities for Professional Development	• Financial support to CA students and to employees for audit courses completed and passed. • Budget for staff to take various types of internal and external training. • Quarterly presentations organized on relevant topics.		
External Memberships	• Canadian Council of Legislative Auditors (CCOLA) • Canadian Comprehensive Auditing Foundation (CCAF) • Canadian Institute of Chartered Accountants (CICA) • Public Sector Accounting Board (PSAB) • Institute of Internal Auditors (IIA) • Institute of Chartered Accountants of Manitoba (ICAM) • Chamber of Commerce • Human Resources Management Association of Manitoba (HRMAM) • Conference Board of Canada • Information Systems Audit and Control Association (ISACA) • Institute of Public Administration of Canada (IPAC) • Financial Management Institute (FMI) • Associates of the University of Manitoba, I.H. Asper School of Business		
Use of IT Tools in Office Operations and Audit/Review Projects	• Audit software (IDEA/CASEWARE, Microsoft Office products) • Time tracking on projects is automated • Attendance records automated • E-Mail • Internet Access • MS Project Planner Software		

Performance Measurement

Overview

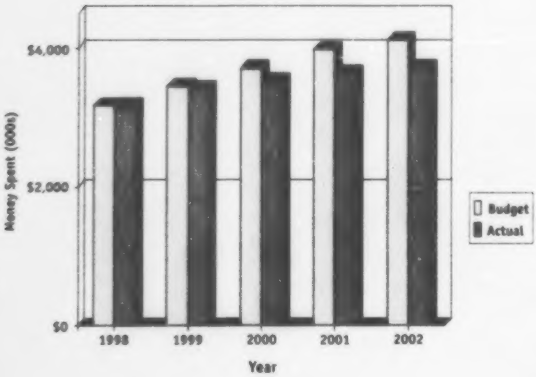
As a key component of our strategic plans, the Office is committed to performance reporting. The following information provides a synopsis of our results in key performance areas.

As the work in the Office continues to evolve, we will be reviewing and assessing future additional or varied performance measures. The Strategic Issues Study Group of CCOLA has a sub-committee that will be reviewing performance measures used by Federal/ Provincial audit offices across Canada. We anticipate that this research will provide us with another source of reference for additional performance measures.

Salaries and Operating Expenditures

The following chart reflects the budget to actual expenditures of the Office over the past five years. The slight increase in expenditures mainly reflects inflation and contractual salary adjustments. The level of staff in the Office has remained relatively constant over the same period.

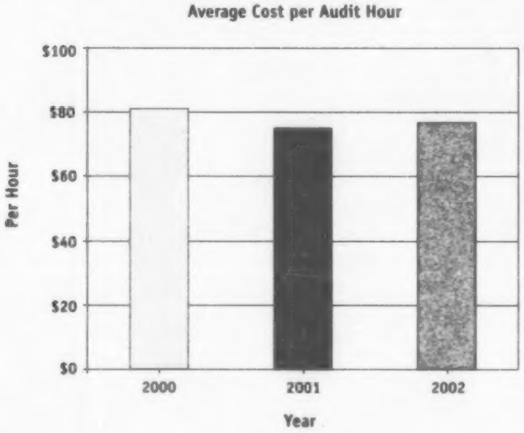
Salaries and Operating Expenditures
for the 5 Year Period Ending March 31, 2002
Budget to Actual Results



Over the past five years, the Office has never exceeded its overall funding as authorized by the Legislative Assembly Management Commission. We have managed our finances prudently and have returned unexpended amounts to the Consolidated Fund.

Audit Costs

The average cost per audit hour is based on the actual salary cost and benefits plus operating costs. The audit hours are the total number of actual audit hours for the year.



In 2001, the Office achieved a lower average cost per audit hour than in 2000 as a result of an increase of 4,000 hours charged directly to audits.

The average cost per audit hour for 2002 has increased slightly from the prior year mainly due to the contractual increase in salaries paid, promotions and increments and inflation. The Office is a training office for people to become Chartered Accountants, and the last few years have seen an increase in the ratio of student auditors. In 2001, three students passed their uniform final examination and received their Chartered Accountants designation. These individuals were entitled to salary increases.

As an offset, the overall hours charged to clients increased slightly between 2001 and 2002.

Employee Time

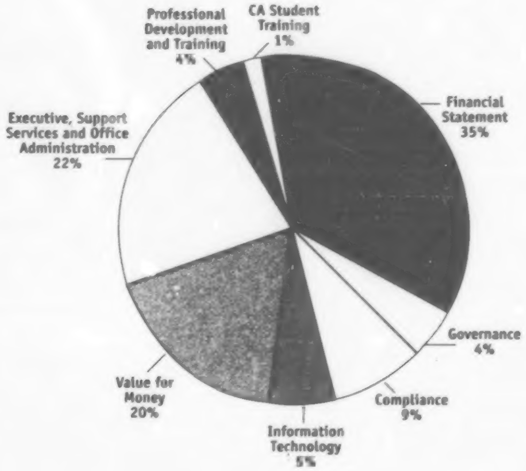
	Target	Actual		
	2002	2002	2001	2000
Employee Time				
Working hours	83%	85%	86%	85%
Vacation leave and statutory holidays	15%	12%	12%	12%
Sick leave	2%	3%	2%	3%
	100%	100%	100%	100%
Working Hour Tasks				
Audits	70%	73%	69%	65%
Executive, Support Services and Administration	21%	22%	21%	24%
Professional Development and Training	7%	4%	7%	7%
CA student training	2%	1%	3%	4%
	100%	100%	100%	100%
Number of full-time positions	45	45	43	41

Every employee is required to complete bi-weekly timesheets for each task done during the work day. Internally, time is posted to audit, project or administration which includes support services, executive management, general office administration, professional development, etc. The Office uses the information to monitor performance and to determine the actual cost of audits or projects.

Our goal was that 70% of staff time be charged to audits. This past year we achieved this goal.

In terms of our audit work, the following pie chart provides a schematic of the percentage of time spent on working hour tasks.

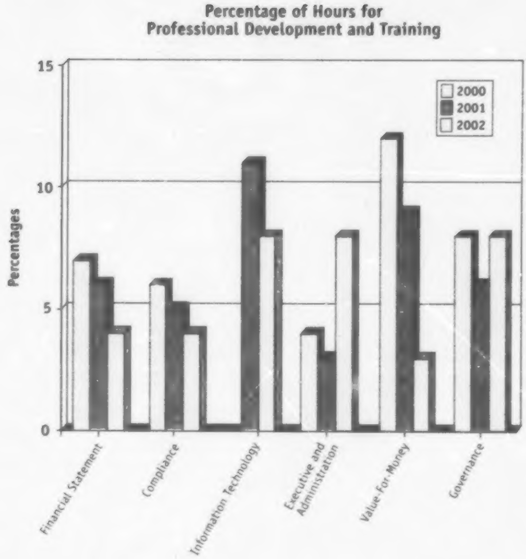
Actual Time Spent on Working Hour Tasks by Employees
March 2002



Professional Development and Training

On average the Office target is that 7% of employees time be allocated to professional development and training. The training for 2001/02 resulted from the training and development needs of Services' employees in the different service areas.

In addition to professional development and training staff received during working hours, staff members spend many additional hours taking courses and enhancing their professional skills. These hours are not reflected in employee time of 4%.



Client Satisfaction

Our Office defines its primary clients as the citizens of Manitoba, and their representatives, the Members of the Legislative Assembly (MLAs). The government departments and organizations we audit are the beneficiaries of our services.

To ensure that our services meet the needs and expectations of our clients, the Office conducts a survey of MLAs every three years. We seek information on the extent to which MLAs have read our reports, their assessment and overall satisfaction of our reports and their assessment of the extent to which we achieve our desired outcomes.

The MLA survey was administered in May 2002 by an independent research firm to ensure respondent confidentiality. Our 2002 results indicated the following:

- 86% of MLAs agreed that the work of our Office contributes to improved public sector accountability in Manitoba;
- 92% indicated that our Reports to the Legislative Assembly (RTLs) are an important service;
- 92% felt that our RTLs deal with matters of significance for the Legislative Assembly;
- 84% indicated they are satisfied with the overall quality of our RTLs; and

- 84% indicated that the RTLs deal with issues in an unbiased and objective manner, and that the recommendations made were fair and practical.

Employee Satisfaction

Our Office believes that a cooperative, energetic, team environment that values and respects the individual and promotes continuous learning and growth is essential in order for us to achieve our Mission and Vision.

Respect, honesty, integrity and openness form our fundamental values. A 1999 staff survey indicated that 84% of respondents were satisfied to be working in our Office. The next survey will be conducted during 2002.

Recommendations Accepted by the Government

Overall, the majority of our recommendations are accepted by the entities we audit, and by the Ministers. The Government is receptive to implementing these recommendations. Our MLA Survey of 2002 indicated the following:

- 83% feel that our recommendations will improve the operations of government, once implemented.

Requests for Special Audits/ Consultations

Requests for Special Audits, investigations and consultations has increased significantly over the past year. As a result, the Office will be reviewing the impact of requests on its audit and resource planning and staffing processes and decisions.

Speaking Engagements

The Auditor General was requested to speak at 20 engagements over the past year. The Office also hosted two international delegations, including legislators from the Northern Province of South Africa, and municipal officials from the Ukraine.

Appendices

Financial Statement Audits Within the Government Reporting Entity Conducted by the Auditor General's Office

Appendix A

Summary Financial Statements
Consolidated Fund (Operating Fund and other Special Funds)
Fiscal Stabilization Fund
Debt Retirement Fund
Northern Affairs Fund
Amounts Paid to MLA's

CROWN ORGANIZATIONS

Board of Administration under The Embalmers and Funeral Directors Act
Brandon University (and subsidiaries)*
Centre Culturel Franco-Manitobain*
Cooperative Loans and Loans Guarantee Board
Cooperative Promotion Board
Council on Post Secondary Education
Economic Innovation and Technology Council*
Helen Betty Osborne Foundation
Horse Racing Commission*
Legal Aid Services Society of Manitoba
Manitoba Agricultural Credit Corporation*
Manitoba Centennial Centre Corporation*
Manitoba Crop Insurance Corporation
Manitoba Foundation
Manitoba Habitat Heritage Corporation*
Manitoba Health Services Insurance Plan
Manitoba Hospital Capital Financing Authority
Manitoba Housing and Renewal Corporation*
Manitoba Trade and Investment Corporation
Manitoba Water Services Board*
Public Schools Finance Board
Special Operating Agencies Financing Authority
University of Manitoba (and subsidiaries)

GOVERNMENT ENTERPRISES

Leaf Rapids Town Properties Ltd.*

SPECIAL OPERATING AGENCIES

Manitoba Text Book Bureau*
Organization and Staff Development*
Public Trustee

* Audit conducted in partnership with a private sector accounting firm

Appendix
B

Other Financial Statement Audits Conducted by the Auditor General's Office

All Charities Campaign
Brandon University Retirement Plan*
Broadmead Investment Corporation
Cherry Lane Investment Corporation
Civil Service Superannuation Fund
Elections Manitoba Returning Offices - 37th General Election
Estates and Trusts under Administration
  by the Public Trustee
Labour Market Development Agreement
Manitoba Home Care Employees' Benefits Trust Fund
Public Service Group Insurance Fund
Teachers' Retirement Allowances Fund
University of Manitoba Pension Plans
University of Winnipeg*
University of Winnipeg Pension Plan*

* Audit conducted in partnership with a private sector accounting firm

Appendix C

Financial Statement Audits Within the Government Reporting Entity Conducted by Private Sector Accounting Firms With Overviews Performed by the Office of the Auditor General

CROWN ORGANIZATIONS

Addictions Foundation of Manitoba
Assisiboine Community College
Child and Family Services of Central Manitoba
Child and Family Services of Western Manitoba
Communities Economic Development Fund
Crown Corporations Council
Deer Lodge Centre Inc.
Insurance Council of Manitoba
Keewatin Community College
Manitoba Adolescent Treatment Centre Inc.
Manitoba Arts Council
Manitoba Boxing Commission
Manitoba Cancer Treatment and Research Foundation
Manitoba Community Services Council Inc.
Manitoba Development Corporation
Manitoba Film and Sound Recording Development Corporation
Manitoba Gaming Control Commission
Manitoba Health Research Council
Red River College
Regional Health Authorities:
  Brandon Regional Health Authority Inc.
  Burntwood Regional Health Authority Inc.
  Churchill Regional Health Authority Inc.
  Interlake Regional Health Authority Inc.
  Marquette Regional Health Authority Inc.
  Nor-Man Regional Health Authority Inc.
  North Eastman Health Association Inc.
  Parkland Regional Health Authority Inc.
  Regional Health Authority - Central Manitoba Inc.
  South Eastman Health/Saute Sud-Est Inc.
  South Westman Regional Health Authority Inc.
  Winnipeg Regional Health Authority Inc.
Rehabilitation Centre for Children Inc.
Venture Manitoba Tours Ltd.
Winnipeg Child and Family Services

GOVERNMENT ENTERPRISES

Liquor Control Commission
Manitoba Hazardous Waste Management Corporation
Manitoba Hydro-Electric Board
Manitoba Lotteries Corporation
Manitoba Product Stewardship Corporation
Manitoba Public Insurance Corporation
Workers Compensation Board of Manitoba

SPECIAL OPERATING AGENCIES

Civil Legal Services Agency
Companies Office
Fleet Vehicles Agency
Food Development Centre
Industrial Technology Centre
Land Management Services
Mail Management Agency
Manitoba Education Research and Learning Information Networks (Merlin)
Manitoba Securities Commission
Materials Distribution Agency
Office of the Fire Commissioner
Pineland Forest Nursery
Property Registry
Vital Statistics Agency

Appendix D

The Auditor General Act

CHAPTER 39

THE AUDITOR GENERAL ACT

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CHAPTER 39

THE AUDITOR GENERAL ACT

(Assented to July 6, 2001)

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows:

PART 1

DEFINITIONS

Definitions
1 In this Act,

"department" means a department or branch of the government; (« ministère »)

"external auditor" means a professional auditor or firm of professional auditors appointed to audit the financial statements of a government organization; (« vérificateur externe »)

"government organization" means a department, government agency or fund included in the summary financial statements of the government reporting entity referred to in clause 65(1)(b) of *The Financial Administration Act*; (« organisme gouvernemental »)

"public money" means public money as defined in *The Financial Administration Act*; (« fonds publics »)

"recipient of public money" means

(a) a person, organization or other body

(i) that has received, directly or indirectly, a grant, loan or advance from the government or a government organization,

(ii) to whom the government or a government organization has transferred property for no consideration or consideration substantially less than its fair market value, or

(iii) for whom the government or a government organization has guaranteed the performance of an obligation or given an indemnity,

(b) a business entity or organization that has received a tax credit under a Manitoba law, or

(c) a business entity or organization that has issued a share, debt obligation or other security, if a person is eligible for a tax credit under a Manitoba law in respect of that acquisition or ownership of the security,

but does not include a government organization. (« bénéficiaire de fonds publics »)

PART 2

AUDITOR GENERAL

Appointing the Auditor General
2(1) On the recommendation of the Standing Committee of the Assembly on Privileges and Elections, the Lieutenant Governor in Council must appoint an Auditor General of Manitoba, as an officer of the Assembly, to provide the Assembly with independent information, advice and assurance under this Act.

Role respecting government policy objectives
2(2) Nothing in this Act is to be interpreted as entitling the Auditor General to question the merits of policy objectives of government.

Appointment process
3(1) The President of the Executive Council must convene a meeting of the Standing Committee on Privileges and Elections if

(a) the office of Auditor General is vacant;

(b) the term of the Auditor General in office will expire within 12 months; or

(c) the Auditor General has resigned and the resignation takes effect within 12 months.

Recommendations of committee
3(2) The Standing Committee on Privileges and Elections must consider candidates for the position of Auditor General and make recommendations to the President of the Executive Council.

Meetings of committee
3(3) To carry out its responsibilities, the Standing Committee on Privileges and Elections may meet during a session of the Legislature or during a recess after prorogation.

No other public office
3(4) The Auditor General may not be nominated for, be elected as, or sit as a member of the Assembly, and may not hold any other public office or engage in any partisan political activity.

Term
4 The Auditor General is to hold office during good behaviour for a term of 10 years, and may be reappointed for further terms of 10 years each.

Salary
5(1) The Auditor General must be paid a salary within the range of salaries paid to senior deputy ministers in the civil service, and is entitled to the same privileges of office as a senior deputy minister.

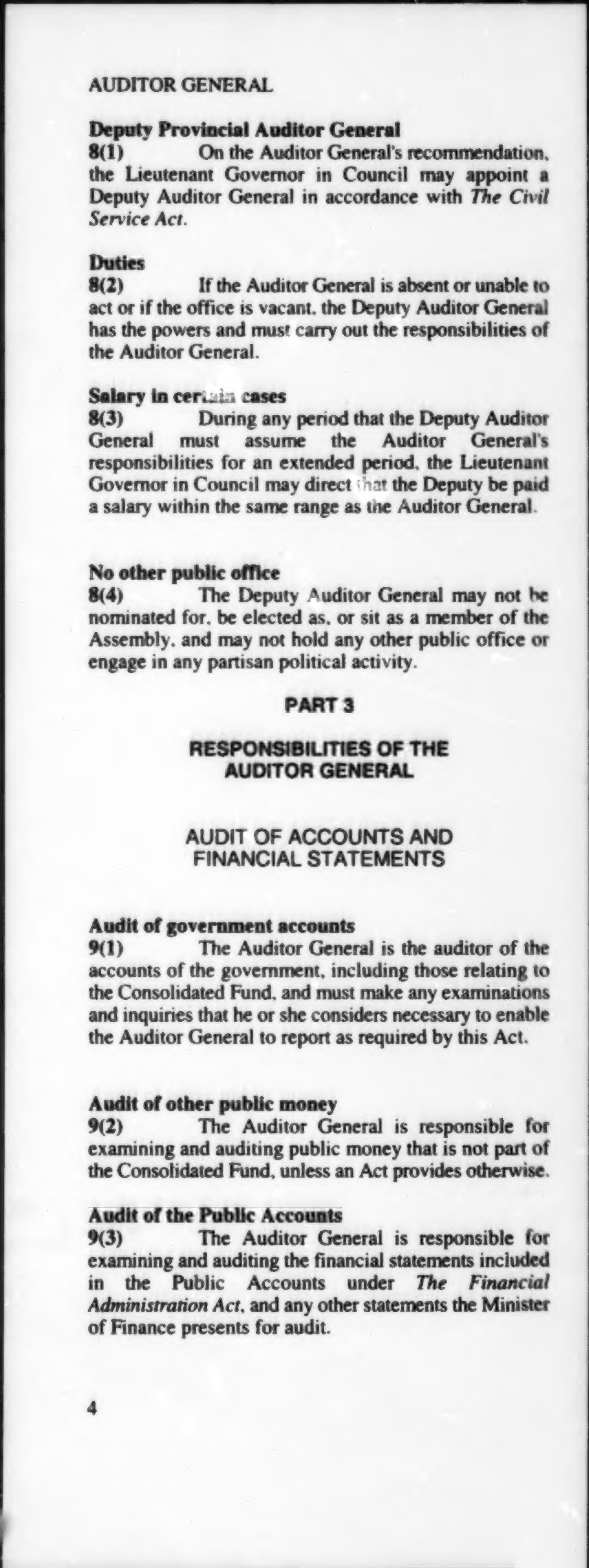
No reduction in salary
5(2) The Auditor General's salary must not be reduced except by a resolution of the Assembly carried by a vote of 2/3 of the members voting.

Civil Service Superannuation Act applies
6(1) The Auditor General is an employee within the meaning of *The Civil Service Superannuation Act*.

Civil Service Act does not apply
6(2) *The Civil Service Act*, except sections 42 and 43, does not apply to the Auditor General.

Suspension or removal
7(1) The Lieutenant Governor in Council may suspend or remove the Auditor General from office on a resolution of the Assembly carried by a vote of 2/3 of the members voting.

Suspension if Assembly not sitting
7(2) When the Assembly is not sitting, the Lieutenant Governor in Council may suspend the Auditor General for cause, if advised to do so in writing by a majority of a committee consisting of the President of the Executive Council and the recognized leaders of the members belonging to the political parties in opposition. But a suspension imposed when the Assembly is not sitting may not continue beyond the end of the next sitting.



Deputy Provincial Auditor General
8(1) On the Auditor General's recommendation, the Lieutenant Governor in Council may appoint a Deputy Auditor General in accordance with *The Civil Service Act*.

Duties
8(2) If the Auditor General is absent or unable to act or if the office is vacant, the Deputy Auditor General has the powers and must carry out the responsibilities of the Auditor General.

Salary in certain cases
8(3) During any period that the Deputy Auditor General must assume the Auditor General's responsibilities for an extended period, the Lieutenant Governor in Council may direct that the Deputy be paid a salary within the same range as the Auditor General.

No other public office
8(4) The Deputy Auditor General may not be nominated for, be elected as, or sit as a member of the Assembly, and may not hold any other public office or engage in any partisan political activity.

PART 3

RESPONSIBILITIES OF THE AUDITOR GENERAL

AUDIT OF ACCOUNTS AND FINANCIAL STATEMENTS

Audit of government accounts
9(1) The Auditor General is the auditor of the accounts of the government, including those relating to the Consolidated Fund, and must make any examinations and inquiries that he or she considers necessary to enable the Auditor General to report as required by this Act.

Audit of other public money
9(2) The Auditor General is responsible for examining and auditing public money that is not part of the Consolidated Fund, unless an Act provides otherwise.

Audit of the Public Accounts
9(3) The Auditor General is responsible for examining and auditing the financial statements included in the Public Accounts under *The Financial Administration Act*, and any other statements the Minister of Finance presents for audit.

Opinion about the Public Accounts

9(4) The Auditor General must express an opinion as to whether the financial statements included in the Public Accounts fairly present information in accordance with the accounting policies of the government stated in the Public Accounts and on a basis consistent with that of the preceding year, and must set out any reservations the Auditor General might have.

Report to ministers

9(5) At least once in each year, the Auditor General shall make a report about the examinations and audits conducted under this section to the minister responsible for each government organization concerned and to the Minister of Finance. The Auditor General must allow at least 14 days for those ministers to review and comment on the report before finalizing it for submission to the Assembly under subsection 10(1).

Advice to officials

9(6) The Auditor General may advise appropriate officers and employees of matters discovered in conducting examinations and audits under this section.

Annual report to Assembly

10(1) No later than December 31 in each year, the Auditor General must report to the Assembly about the examinations and audits conducted under section 9.

Content of the report

10(2) The report must indicate anything resulting from the work of the Auditor General that he or she considers should be brought to the Assembly's attention, including, but not limited to, circumstances in which

(a) required information was not provided or was not provided within a reasonable time;

(b) accounts were not properly kept or public money was not fully accounted for;

(c) essential records were not maintained, or the rules and procedures applied were insufficient, to

(i) safeguard and control public property,

(ii) secure an effective check on the assessment, collection and proper allocation of revenue, or

(iii) ensure that expenditures were made only as authorized;

(d) public money was expended for purposes other than those for which it was appropriated by the Legislature;

(e) financial and administrative provisions of Acts, regulations, policies and directives were not complied with.

Report may include recommendations
10(3) The report may include any recommendation the Auditor General wishes to make, and may draw attention to and make recommendations about any audit conducted by an external auditor under section 12.

SPECIAL REPORT TO ASSEMBLY

Special report to Assembly
11 The Auditor General may make a special report to the Assembly on any matter of pressing importance or urgency that he or she considers should not be deferred until the next annual report under section 10 is presented.

AUTHORITY OVER EXTERNAL AUDITORS

Scope of an external audit
12(1) When an external auditor is appointed to audit the financial statements of a government organization, the Auditor General may require the external auditor to give the Auditor General a description of the proposed scope of the audit before the audit is begun. The Auditor General may then require changes to be made in the scope of the audit.

Further directions
12(2) Before an external auditor issues an audit opinion on the financial statements of a government organization, the Auditor General may require the external auditor to

(a) give the Auditor General a copy of the proposed audit opinion, the financial statements, and any recommendations arising out of the audit of the financial statements; and

(b) conduct additional examinations relating to the financial statements.

Audit working papers
12(3) The Auditor General may require an external auditor to give the Auditor General a copy of the audit working papers.

Audit opinion
12(4) As soon as an audit is completed, an external auditor must give the Auditor General a copy of the audit opinion on the financial statements of a government organization and any recommendations arising out of the audit of the financial statements.

Reliance on external auditor's report
13 In order to fulfil his or her responsibilities as the auditor of the government's accounts, the Auditor General may rely on the report of an external auditor of a government organization or of a subsidiary of a government organization.

AUDIT OF OPERATIONS

Audit of operations
14(1) In carrying out his or her responsibilities under this Act, the Auditor General may examine and audit the operations of a government organization with regard to any of the following matters:

(a) whether financial and administrative provisions of Acts, regulations, policies and directives have been complied with;

(b) whether public money has been expended with proper regard for economy and efficiency;

(c) whether the Assembly has been provided with appropriate accountability information;

(d) whether the form and content of financial information documents is adequate and suitable.

Report to ministers
14(2) At least once in each year, the Auditor General shall make a report about the examinations and audits conducted under this section to the minister responsible for each government organization concerned and to the Minister of Finance. The Auditor General must allow at least 14 days for those ministers to review and comment on the report before finalizing it for submission to the Assembly.

Report to officials
14(3) The Auditor General may advise appropriate officers and employees of matters discovered in conducting examinations and audits under this section.

Report to Assembly
14(4) The Auditor General must report to the Assembly annually on the work carried out under this section, and may bring to the Assembly's attention anything he or she considers necessary, including recommendations.

AUDIT OF RECIPIENT OF PUBLIC MONEY

Audit of recipient of public money
15(1) The Auditor General may conduct an examination and audit in respect of public money received by a recipient of public money, including the matters listed in subsection 14(1), and may require the recipient to prepare and give to the Auditor General the financial statements setting out the details of the disposition of the public money received.

No obstruction
15(2) No person shall obstruct or provide false or misleading information to the Auditor General or a person employed under the Auditor General in conducting an examination or audit under this section, or conceal or destroy any records or things relevant to an examination or audit.

Offence
15(3) A person who contravenes subsection (2) is guilty of an offence and is liable on summary conviction to a fine of not more than $10,000.

Reliance on report of other auditor
15(4) The Auditor General may rely on the report of an auditor appointed by a recipient of public money.

SPECIAL AUDIT ON REQUEST

Special audit on request

16(1) When requested to do so by the Lieutenant Governor in Council or the Minister of Finance, or by resolution of the Standing Committee on Public Accounts, the Auditor General may examine and audit the accounts of a government organization, recipient of public money or other person or entity that in any way receives, pays or accounts for public money. But the Auditor General is not obliged to do so if he or she is of the opinion that it would interfere with the primary responsibilities of the Auditor General.

Report

16(2) The Auditor General must report the findings of an audit under this section to the person or body that requested the audit and to the minister responsible for any government organization concerned.

Report submitted to the Assembly

16(3) The Auditor General may submit a report of an audit under this section to the Assembly if it is in the public interest to do so, but must allow at least 14 days for the minister responsible for the government organization and the Minister of Finance to review and comment on the report before finalizing it for submission to the Assembly.

JOINT AUDIT

Joint audit

17 With respect to public money that is spent jointly, the Auditor General may undertake a joint audit with the Auditor General of Canada, an Auditor General or Provincial Auditor of another province or territory, or an auditor of a municipality.

PART 4

POWERS OF THE AUDITOR GENERAL

Access to records

18(1) Despite any other Act, the Auditor General is entitled to access at all reasonable times to the records of any government organization that are necessary for the purpose of this Act.

Access to information
18(2) The Auditor General may require and is entitled to receive any information necessary for the purpose of this Act from

(a) any person in the public service or formerly in the public service;

(b) any current or former director, officer, employee or agent of a government organization or of a recipient of public money; or

(c) any other person, organization or other body that the Auditor General believes on reasonable grounds may have information relevant to an examination or audit under this Act.

No access to Cabinet confidences
18(3) Despite subsections (1) and (2), the Auditor General shall not have access to information described in subsection 19(1) of *The Freedom of Information and Protection of Privacy Act*, except in the circumstances mentioned in subsection 19(2) of that Act.

Part V of Evidence Act powers
19 The Auditor General or his or her delegate may examine any person on oath on any matter that the Auditor General considers relevant to an examination and audit under this Act, and for that purpose the Auditor General or delegate has the powers of a commissioner appointed under Part V of *The Manitoba Evidence Act*.

Staff in government organizations
20 To carry out responsibilities under this Act more effectively, the Auditor General may place a person or persons employed under the Auditor General in any government organization, and the organization must provide the necessary office accommodation.

Security requirements
21 The Auditor General must ensure that every person employed under the Auditor General who is to examine records of a government organization complies with any security requirements applicable to persons employed in that organization.

PART 5

GENERAL PROVISIONS

STAFF AND OFFICE OF THE AUDITOR GENERAL

Staff appointed under Civil Service Act
22(1) Officers and employees necessary to enable the Auditor General to perform his or her duties must be appointed in accordance with *The Civil Service Act*.

Civil Service Superannuation Act applies
22(2) Officers and employees of the Auditor General, including the Deputy Auditor General, are employees within the meaning of *The Civil Service Superannuation Act*.

Office of the Auditor General
23 The Auditor General is responsible for the internal operations of his or her office and for the persons employed under the Auditor General. For those purposes, the Auditor General may

(a) establish office policies and procedures consistent with practices followed by the government;

(b) charge fees for services provided by the office on a basis approved by the Lieutenant Governor in Council;

(c) delegate to any person employed under the Auditor General any responsibility or power that the Auditor General has under this Act, other than the responsibility to report to the Assembly;

(d) maintain an independent bank account; and

(e) contract for professional services.

CONFIDENTIALITY

Confidentiality
24(1) The Auditor General and everyone employed under the Auditor General shall preserve secrecy concerning all matters that come to their knowledge in the course of their work under this Act, and shall not communicate those matters to any person unless required to do so in connection with the proper administration of this Act or a proceeding under this Act,

or in a court of law.

Exception
24(2) Nothing in subsection (1) limits the Auditor General's right to report under this Act on the conclusions of an examination or audit.

Working papers confidential
25 The working papers relating to an examination or audit by the Auditor General or a person employed under the Auditor General are confidential and must not to be laid before the Assembly or any committee of the Assembly.

ANNUAL REPORT OF AUDITOR GENERAL'S OFFICE

Annual audit of Auditor General's office
26(1) Each year, an auditor whose appointment is approved by the Legislative Assembly Management Commission must examine the accounts of the office of the Auditor General and prepare a report. The Commission may also direct the auditor to conduct an audit respecting any of the matters listed in subsection 14(1).

Annual report
26(2) Before August 1 each year, the Auditor General must report to the Assembly on the operations of his or her office. The report must include

(a) information on the performance of the office; and

(b) the report on the annual audit under subsection (1).

ESTIMATES

Estimates
27(1) The Auditor General shall present annually to the Legislative Assembly Management Commission estimates of the amount of money that will be required for the purpose of this Act.

Special report
27(2) The Auditor General may make a special report to the Assembly if he or she thinks that the amount of money provided in the estimates submitted to the Legislature is inadequate.

Money
27(3) The money required for the purpose of this Act is to be paid out of the Consolidated Fund from money authorized by an Act of the Legislature.

Unexpended money to be paid into Consolidated Fund
27(4) All money which has been authorized by an Act of the Legislature to be paid and applied for the purposes of this Act that remains unexpended at the end of the fiscal year must be paid to the Minister of Finance and becomes part of the Consolidated Fund.

TABLING REPORTS IN THE ASSEMBLY

Tabling reports in the Assembly
28(1) When making a report to the Assembly under this Act, the Auditor General must submit the report to the Speaker. The Speaker must lay a copy of it before the Assembly within 15 days after receiving it if the Assembly is sitting or, if it is not, within 15 days after the beginning of the next sitting.

Distribution to members of the Assembly
28(2) On receiving a report under this Act, the Speaker must direct that copies be sent to the members of the Assembly.

Referral to Public Accounts Committee
28(3) A report to the Assembly under this Act stands referred to the Standing Committee on Public Accounts.

PROTECTION FROM LIABILITY

Protection from liability
29 No proceeding may be instituted against the Auditor General, the Deputy Auditor General, or any person employed under the Auditor General,

(a) for any act done in good faith in the performance or intended performance of a duty or in the exercise or intended exercise of a power under this or any other Act or regulation; or

(b) for any neglect or default in the performance or intended performance or in the exercise or intended exercise in good faith of a duty or power described in clause (a).

TRANSITIONAL, CONSEQUENTIAL, REPEAL AND COMING INTO FORCE

Transitional
30 *The Provincial Auditor appointed under* ***The Provincial Auditor's Act*** *continues in office as the Auditor General under this Act as if appointed under this Act for a term that expires on the day the appointment under* ***The Provincial Auditor's Act*** *would expire.*

Consequential amendments
31 *The Acts listed in the Schedule are amended as described in the Schedule.*

Repeal
32 *The Provincial Auditor's Act*, R.S.M. 1987, c. P145, is repealed.

C.C.S.M. reference
33 This Act may be referred to as chapter A180 of the *Continuing Consolidation of the Statutes of Manitoba.*

Coming into force
34 This Act comes into force on a day fixed by proclamation.

Appendix E

Agents

The Office of the Auditor General has continued with the policy of using the services of private sector chartered accountant firms to assist with the discharging of some of the Office's attest audit responsibilities. These firms act as Agents for the Auditor General under the authority of Section 23(e) of The Auditor General Act, and we wish to acknowledge their contribution. The following firms acted as our agents:

BDO Dunwoody LLP
Booke and Partners
Chapman and Verwey
Deloitte & Touche LLP
Grant Thornton LLP
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP

Professional Services

In addition the following firms/individuals worked with our Office on specific engagements during the past fiscal year:

Aikins MacAulay & Thorvaldson: Ted Bock
Boge Boge (1980) Ltd.
Debbie Young, Communications Specialist
Ernst & Young
Errol J.E. Harris, Education Consultant
Human Resource Services: provided by Donna Krochak, Human Resource Consultant
Imaginet Resources Corp.
Kenneth W. Clowes
KPMG Investigation & Security Inc.: Bob Anderson and John Williams
The Manitoba Museum: Katherine Pettipas, Curator
MicroAge
Probe Research Inc.
Progestic International Inc.
Thompson Dorfman Sweatman: Blair Graham

AUDITOR GENERALS
# of the Province of Manitoba
Over 100 Years of Service

Provincial Auditor	1876 - 1879
Provincial Auditor	1879 - 1888
Provincial Auditor	1888 - 1916
Comptroller-General	1916 - 1921
Comptroller-General	1921 - 1933
Comptroller-General	1933 - 1936
Comptroller-General	1936 - 1938
Comptroller-General	1938 - 1944
Comptroller-General	1944 - 1966
Comptroller-General Provincial Auditor	1966 - 1969 1969 - 1972
Provincial Auditor	1972 - 1985
Provincial Auditor	1985 - 1992
Provincial Auditor	1992 - 1996
Provincial Auditor Auditor General	1996 - 2002 2002 - Current

Copies of this report may be obtained by contacting:

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